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Legislative Audit Division

State of Montana

Report to the Legislature

March 1996

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1995

Montana Single Audit Report

This document is prepared in accordance with the federal Single Audit Act of 1984 and OMB Circular A-128. It contains the auditor's reports on Montana's General Purpose Financial Statements and Schedules of Federal Financial Assistance for the fiscal years ended June 30, 1994 and 1995, as well as Reports on Internal Controls and Compliance, a Schedule of Questioned Costs, and Federal Issues.

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
Room 202, State Capitol
Helena MT 59620
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Legislative Audit Division

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 1995

Montana Single Audit Report

All financial-compliance audit staff were involved in the individual agency audits and statewide audits supporting this audit report. Staff involved in incorporating results from individual agency audits and statewide audits into this audit report include: Pearl M. Allen, Jody Brandt, Renee Foster, Vickie Murphy, and Lorry Parriman.

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Montana Legislative Branch

Legislative Audit Division
Scott A. Seacat, Legislative Auditor

INDEPENDENT AUDITOR'S REPORT ON THE GENERAL PURPOSE FINANCIAL STATEMENTS AND THE SUPPLEMENTARY SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying general purpose financial statements of the state of Montana, as of June 30, 1995, and for the year then ended, on pages A-4 to A-56. These general purpose financial statements are the responsibility of the state of Montana's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Montana State Lottery, which statements reflect total operating revenues, expenditures, and transfers-out of 32.8 percent, 33.2 percent, and 35.8 percent, respectively, in the Enterprise Fund. These statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Montana State Lottery is based solely on the report of the other auditor.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit and the report of the other auditor provide a reasonable basis for our opinion.

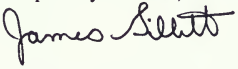
Room 135, State Capitol Building PO Box 201705 Helena MT 59620-1705
Phone 406-444-3122 FAX 406-444-9784

In our opinion, based on our audit and the report of the other auditor, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the state of Montana, as of June 30, 1995, and the results of its operations and the cash flows of its proprietary and nonexpendable trust fund types for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 18, 1995 on our consideration of the state of Montana's internal control structure and a report dated October 18, 1995 on its compliance with laws and regulations.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of the state of Montana taken as a whole. The accompanying Schedule of Federal Financial Assistance on pages A-57 through A-71 is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. The information in that schedule has been subjected to auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

Respectfully submitted,



James Gillett, CPA
Deputy Legislative Auditor

October 18, 1995

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STATE OF MONTANA
Combined Balance Sheet
All Fund Types, Account Groups and Discretely Presented Component Units
June 30, 1995
(Expressed in Thousands)

	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPES	
ASSETS/OTHER DEBITS	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	ENTERPRISE	INTERNAL SERVICE
Assets						
Cash/Cash Equivalents (Note 4)	$ 37,435	$ 202,478	$ 38,204	$ 32,598	$ 17,879	$ 29,935
Receivables (Net of Uncollectibles)	71,111	51,330	6,183	126	6,541	857
Interfund Loans Receivable (Note 13)	11,269	38,170	-	-	75	-
Due from Other Governments	3,404	133,395	-	-	-	10
Due from Primary Government (Note 13)	-	-	-	-	-	-
Due from Component Units (Note 13)	422	361	10	-	5	823
Due from Other Funds (Note 13)	35,073	67,696	83	193	188	4,469
Inventories	1,919	24,000	-	-	9,582	1,572
Equity in Pooled Investments (Note 4)	-	-	-	-	-	-
Long-Term Loans/Notes Receivable	-	27,032	33,554	1	29,110	3
Advances to Other Funds (Note 13)	1,185	210	-	-	-	-
Investments (Note 4)	-	14,115	1,671	-	12,661	25,120
Land	-	-	-	-	800	236
Buildings/Improvements	-	-	-	-	4,404	83
Equipment	-	-	-	-	5,495	125,252
Other Fixed Assets	-	-	-	-	246	3
Construction in Progress	-	-	-	-	146	302
Accumulated Depreciation	-	-	-	-	(5,549)	(71,192)
Intangible Assets	-	-	-	-	72	35
Deferred Charges	-	-	-	-	1,083	-
Other Assets	1,114	1,148	-	6	3,486	202
Other Debits:						
Amount Available - Debt Service Funds	-	-	-	-	-	-
Resources to be Provided in Future Years	-	-	-	-	-	-
TOTAL ASSETS/OTHER DEBITS	$ 162,932	$ 559,935	$ 79,705	$ 32,924	$ 86,224	$ 117,710
LIABILITIES/EQUITY/OTHER CREDITS						
Liabilities:						
Accounts Payable	$ 65,951	$ 100,243	$ 3,721	$ 2,934	$ 3,970	$ 3,629
Lottery Prizes Payable	-	-	-	-	2,142	-
Tax Refund Payable	21,484	-	-	-	-	-
Interfund Loans Payable (Note 13)	-	46,491	-	-	75	345
Advances from Other Funds (Note 13)	-	1,415	-	-	70	-
Due to Other Governments	3,334	30,348	-	-	1	-
Due to Primary Government (Note 13)	-	-	-	-	-	-
Due to Component Units (Note 13)	162	28,284	-	160	-	15
Due to Other Funds (Note 13)	22,846	73,193	3,184	85	4,503	2,028
Deferred Revenue	13,180	30,370	732	-	2,745	48
Lease/Installment Purchase Payable (Note 11)	-	-	-	-	56	1,056
Bonds/Notes Payable (Net) (Note 12)	-	-	-	-	39,217	-
Property Held in Trust	538	1,575	-	-	2,101	97
Compensated Absences Payable (Note 1)	-	-	-	-	882	2,537
Estimated Insurance Claims (Note 9)	-	-	-	-	1,682	29,289
Arbitrage Rebate Tax Payable	-	-	-	-	370	-
Other Liabilities	1	19	-	-	-	-
Total Liabilities	127,496	311,938	7,637	3,179	57,814	39,044
Equity/Other Credits:						
Investment in General Fixed/Plant Assets	-	-	-	-	-	-
Contributed Capital (Note 17)	-	-	-	-	3,490	5,343
Retained Earnings:						
Reserved for Debt Service	-	-	-	-	-	-
Unreserved	-	-	-	-	24,920	73,323
Fund Balances						
Reserved for Encumbrances	6,805	37,094	-	-	-	-
Reserved for Inventories	1,919	24,000	-	-	-	-
Reserved for Advances to Other Funds (Note 13)	1,185	210	-	-	-	-
Reserved for Long-Term Loans	-	25,728	-	1	-	-
Reserved for Debt Service	-	-	72,068	-	-	-
Reserved for Trusts/Endowments (Note 15)	-	8,000	-	-	-	-
Reserved for Construction	-	-	-	-	-	-
Reserved for Retirement Systems	-	-	-	-	-	-
Unreserved, undesignated	25,527	152,965	-	29,744	-	-
Total Equity/Other Credits	35,436	247,997	72,068	29,745	28,410	78,666
TOTAL LIABILITIES/EQUITY/OTHER CREDITS	$ 162,932	$ 559,935	$ 79,705	$ 32,924	$ 86,224	$ 117,710

The notes to the financial statements are an integral part of this statement.

FIDUCIARY FUND TYPES	ACCOUNT GROUPS		COMPONENT UNITS		
TRUST AND AGENCY	GENERAL FIXED ASSETS	GENERAL LONG-TERM OBLIGATIONS	PROPRIETARY FUND TYPES	PENSION TRUST FUND	HIGHER EDUCATION FUNDS
$ 582,476	$ -	$ -	$ 51,257	$ 54,384	$ 86,036
103,921	-	-	29,639	18,221	34,699
108	-	-	-	-	1,800
52	-	-	-	-	3,322
-	-	-	27,615	27	1,537
1,353	-	-	-	-	-
30,713	-	-	2,150	569	16,367
-	-	-	73	-	3,744
1,534,162	-	-	-	927,871	332
98,484	-	-	341,797	903	26
113	-	-	-	-	-
1,017,281	-	-	584,093	65,215	31,149
49,424	57,826	-	-	35	12,397
277	250,856	-	-	158	298,232
105	92,468	-	3,468	170	118,729
-	44,356	-	-	-	70,549
-	7,257	-	-	-	51,579
(184)	-	-	(1,240)	(191)	-
3	-	-	1,482	125	2,357
-	-	-	9,793	-	1,133
6,807	-	-	1,718	-	3,793
-	-	72,068	-	-	-
-	-	233,032	-	-	-
$ 3,425,095	$ 452,763	$ 305,100	$ 1,051,845	$ 1,067,487	$ 737,781
$ 5,317	$ -	$ -	$ 6,773	$ 175	$ 22,796
-	-	-	-	-	-
-	-	-	-	-	-
2,711	-	-	-	-	1,800
23	-	-	-	-	-
205,024	-	-	-	3	673
-	-	-	1,052	30	1,892
558	-	-	-	-	-
34,314	-	-	2,089	-	15,259
55	-	-	21,749	-	10,608
-	-	1,248	-	87	2,247
-	-	262,967	589,256	-	117,741
509,817	-	-	1,835	46	4,333
85	-	40,850	751	35	24,231
-	-	-	691,586	-	-
-	-	35	209	-	-
3,867	-	-	-	-	-
761,771	-	305,100	1,315,300	376	201,580
-	452,763	-	-	-	455,143
-	-	-	11,584	-	-
-	-	-	94,082	-	-
-	-	-	(369,121)	-	-
-	-	-	-	-	1,681
-	-	-	-	-	-
23	-	-	-	-	-
3,505	-	-	-	-	-
-	-	-	-	-	593
1,016,950	-	-	-	-	28,552
-	-	-	-	-	14,530
1,530,754	-	-	-	1,067,111	-
112,092	-	-	-	-	35,702
2,663,324	452,763	-	(263,455)	1,067,111	536,201
$ 3,425,095	$ 452,763	$ 305,100	$ 1,051,845	$ 1,067,487	$ 737,781

STATE OF MONTANA
Combined Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Fund Types and Expendable Trust Funds
For the Fiscal Year Ended June 30, 1995
(Expressed in Thousands)

	GOVERNMENTAL FUND TYPES				FIDUCIARY FUND TYPE
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	EXPENDABLE TRUST
REVENUES:					
Licenses/Permits	$ 24,323	$ 81,786	$ -	$ -	$ -
Taxes:					
Natural Resource	22,764	39,943	404	-	-
Individual Income	340,665	1,378	32,910	-	-
Corporate Income	57,918	11,591	6,011	-	-
Property	30	211,425	-	-	-
Fuel	-	162,871	-	-	-
Payroll	-	48,583	-	-	-
Other (Note 1)	62,970	68,004	10,668	2,394	-
Charges for Services/Fines/Forfeits	32,125	36,332	810	514	135
Investment Earnings	16,588	7,367	4,854	458	8,998
Sale of Documents/Mdse./Property	361	16,735	1,891	-	-
Rentals/Leases/Royalties	94	86	-	-	11
Contributions/Premiums	-	3,773	-	-	58,337
Grants/Contracts/Donations	1	8,447	-	-	365
Federal	242	714,190	197	-	6,381
Federal Indirect Cost Recoveries	562	2,040	-	-	-
Other Revenues	274	861	-	-	1,243
Total Revenues	558,917	1,415,412	57,745	3,366	75,470
Intrafund Revenues	(117)	(12,205)	(130)	-	-
Net Revenues	558,800	1,403,207	57,615	3,366	75,470
EXPENDITURES:					
Current:					
General Government	83,826	56,676	47	24	-
Public Safety/Corrections	51,199	67,469	-	-	-
Transportation	157	297,551	-	-	-
Health/Social Services	198,681	474,649	-	-	-
Education/Cultural	61,429	430,115	-	-	109
Resource Development/Recreation	33,729	59,492	34	54	31
Economic Development/Assistance	2,413	98,035	-	-	61,771
Debt Service:					
Principal Retirement	357	350	66,752	-	-
Interest/Fiscal Charges	2,619	480	15,823	10	-
Capital Outlay	4,444	32,102	17	35,160	129
Total Expenditures	438,854	1,516,919	82,673	35,248	62,040
Intrafund Expenditures	(117)	(12,205)	(130)	-	-
Net Expenditures	438,737	1,504,714	82,543	35,248	62,040
Excess of Rev. Over (Under) Expend	120,063	(101,507)	(24,928)	(31,882)	13,430
OTHER FINANCING SOURCES (USES):					
Loan Proceeds	-	3,545	-	-	-
Bond Proceeds	501	2,350	-	32,455	-
Inception of Lease/Installment Contract	577	5	-	-	60
General Fixed Asset Sale Proceeds	104	30	-	-	-
Operating Transfers In (Note 13)	91,525	174,485	75,301	3,179	-
Transfers from Component Units (Note 13)	-	986	317	-	-
Operating Transfers Out (Note 13)	(122,005)	(63,896)	(49,915)	(1,370)	(1,437)
Transfers to Component Units (Note 13)	(96,352)	(65,254)	-	-	-
Total Other Financing Sources (Uses)	(125,650)	52,251	25,703	34,264	(1,377)
Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses	(5,587)	(49,256)	775	2,382	12,053
FUND BALANCES - JULY 1 - as Previously Reported	40,414	296,253	70,378	27,391	103,278
Prior Period Adjustments (Note 3)	(225)	205	(4)	-	221
FUND BALANCES - July 1 - As Restated	40,189	296,458	70,374	27,391	103,499
Increase (Decrease) in Inventories	(250)	2,397	-	-	-
Residual Equity Transfers (Note 13)	1,084	(1,602)	919	(28)	68
FUND BALANCES - JUNE 30	$ 35,436	$ 247,997	$ 72,068	$ 29,745	$ 115,620

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Combined Statement of Revenues, Expenditures, Other Financing Sources (Uses) and
Reconciliation of Budget and Actual (Budgetary Basis) to GAAP Basis - Unreserved Fund Balance
General and Special Revenue Fund Types
For the Fiscal Year Ended June 30, 1995
(Expressed in Thousands)

	GENERAL FUND			SPECIAL REVENUE FUNDS		
	BUDGET	ACTUAL	VARIANCE - FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE - FAVORABLE (UNFAVORABLE)
REVENUES:						
Licenses/Permits	$ 22,313	$ 24,323	$ 2,010	$ 75,773	$ 81,786	$ 6,013
Taxes						
Natural Resource	24,115	22,764	(1,351)	42,073	39,943	(2,130)
Individual Income	315,080	340,665	25,585	14	1,378	1,364
Corporate Income	55,901	57,918	2,017	8,326	11,591	3,265
Property	360	30	(330)	146,113	211,425	65,312
Fuel	-	-	-	170,218	162,871	(7,347)
Payroll	-	-	-	41,090	48,583	7,493
Other	53,152	62,970	9,818	66,186	68,004	1,818
Charges for Services/Fines/Forfeits	21,535	32,125	10,590	36,279	36,332	53
Investment Earnings	10,683	16,588	5,905	4,238	7,367	3,129
Sale of Documents/Merchandise/Property	258	361	103	26,490	16,735	(9,755)
Rentals/Leases/Royalties	70	94	24	119	86	(33)
Contributions/Premiums	-	-	-	3,586	3,773	187
Grants/Contracts/Donations	-	1	1	9,544	8,447	(1,097)
Federal	200	242	42	772,894	714,190	(58,704)
Federal Indirect Cost Recoveries	28	562	534	1,650	2,040	390
Other Revenues	79	274	195	1,027	861	(166)
Total Revenues	503,774	558,917	55,143	1,405,620	1,415,412	9,792
EXPENDITURES:						
Current:						
General Government	87,307	83,440	3,867	94,883	57,546	37,337
Public Safety/Corrections	51,775	50,840	935	75,791	67,554	8,237
Transportation	169	158	11	328,581	304,054	24,527
Health/Social Services	199,659	197,660	1,999	503,396	470,596	32,800
Education/Cultural	62,066	61,376	690	438,912	430,113	8,799
Resource Development/Recreation	33,989	33,687	302	98,353	62,322	36,031
Economic Development/Assistance	2,475	2,425	50	117,065	106,275	10,790
Debt Service:						
Principal Retirement	350	350	-	343	343	-
Interest/Fiscal Charges	2,619	2,619	-	480	480	-
Capital Outlay	4,691	4,691	-	32,657	32,473	184
Total Expenditures	445,100	437,246	7,854	1,690,461	1,531,756	158,705
Excess of Rev. Over (Under) Expend.	58,674	121,671	62,997	(284,841)	(116,344)	168,497
OTHER FINANCING SOURCES (USES):						
Loan Proceeds	-	-	-	5,065	3,550	(1,515)
Bond Proceeds	-	501	501	2,350	2,350	-
General Fixed Asset Sale Proceeds	94	104	10	17	30	13
Operating Transfers In	107,409	91,203	(16,206)	253,878	230,942	(22,936)
Transfers from Component Units	-	-	-	987	987	-
Operating Transfers Out	(155,842)	(123,832)	32,010	(89,516)	(80,859)	8,657
Transfers to Component Units	(96,352)	(96,352)	-	(65,254)	(65,254)	-
Total Other Financings Sources (Uses)	(144,691)	(128,376)	16,315	107,527	91,746	(15,781)
Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses (Budgetary Basis)	(86,017)	(6,705)	79,312	(177,314)	(24,598)	152,716
RECONCILIATION OF BUDGETARY/GAAP REPORTING:						
1. Adjust expenditures for encumbrances.	-	(722)	(722)	-	14,156	14,156
2. Adjustments for appropriated loans/ other nonbudgeted activity.	-	1,840	1,840	-	(38,814)	(38,814)
3. Intrafund elimination - Transfers In	-	(367)	(367)	-	(64,741)	(64,741)
4. Intrafund elimination - Transfers Out	-	367	367	-	64,741	64,741
Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses (GAAP Basis)	(86,017)	(5,587)	80,430	(177,314)	(49,256)	128,058
UNRESERVED FUND BALANCES - JULY 1	32,592	32,592	-	221,307	221,307	-
Residual Equity Transfers (Note 13)	1,084	1,084	-	(1,602)	(1,602)	-
Prior Period Adjustments (Note 3)	-	(225)	(225)	-	205	205
Decrease (Increase):						
Encumbrances Reserve	-	(1,288)	(1,288)	-	(7,569)	(7,569)
Advances to Other Funds Reserve	-	(1,065)	(1,065)	-	(190)	(190)
Long-Term Loans Reserve	-	16	16	-	(1,930)	(1,930)
Trusts/Endowments Reserve (Note 15)	-	-	-	-	(8,000)	(8,000)
UNRESERVED FUND BALANCES - JUNE 30	$ (52,341)	$ 25,527	$ 77,868	$ 42,391	$ 152,965	$ 110,574

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balances
All Proprietary Fund Types, Similar Trust Funds and Discretely Presented Component Units
For the Fiscal Year Ended June 30, 1995
(Expressed in Thousands)

	PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPES		COMPONENT UNITS	
	ENTERPRISE	INTERNAL SERVICE	NONEXPENDABLE TRUST	PENSION TRUST	PROPRIETARY FUND TYPES	PENSION TRUST FUND
OPERATING REVENUES:						
Charges for Services	$ 81,148	$ 58,603	$ 5,591	$ -	$ 323	$ -
Investment Earnings	1,262	4,276	70,463	101,011	37,457	72,309
Contributions/Premiums	2,043	68,372	-	103,620	153,761	76,983
Grants/Contracts/Donations	12	-	-	-	-	-
Taxes	10,259	-	23,836	-	-	-
Rentals/Leases/Royalties	-	-	22,393	-	-	-
Grants/Contracts/Donations	-	-	-	-	-	-
Other Operating Revenues	6,779	80	40	-	26,603	-
Total Operating Revenues	101,503	131,331	122,323	204,631	218,144	149,292
Intrafund Revenues	(1,001)	(1)	-	(29)	-	-
Net Operating Revenues	100,502	131,330	122,323	204,602	218,144	149,292
OPERATING EXPENSES:						
Personal Services	8,604	19,984	-	541	8,256	325
Contractual Services	8,049	9,449	-	298	3,653	135
Supplies/Materials	30,770	12,861	-	17	2,351	11
Benefits	1,338	60,978	-	97,673	79,006	78,582
Refunds	-	-	-	10,450	-	3,373
Depreciation	610	8,171	-	20	391	20
Amortization	6	119	-	3	272	28
Utilities/Rent	984	4,064	-	34	187	46
Communications	1,000	8,513	-	48	503	36
Travel	212	311	-	16	169	11
Repair/Maintenance	415	4,304	-	3	157	16
Lottery Prize Payments	16,152	-	-	-	-	-
Interest Expense	2,876	142	-	-	42,087	8
Arbitrage Rebate Tax	78	-	-	-	126	-
Other Operating Expenses	3,268	1,217	34	117	3,059	9
Total Operating Expenses	74,362	130,113	34	109,220	140,217	82,600
Intrafund Expenses	(1,001)	(1)	-	(29)	-	-
Net Operating Expenses	73,361	130,112	34	109,191	140,217	82,600
Operating Income (Loss)	27,141	1,218	122,289	95,411	77,927	66,692
NONOPERATING REVENUES (EXPENSES):						
Gain (Loss) Sale of Fixed Assets	(55)	616	-	(21)	(6)	-
Increase (Decrease) Value of Livestock	13	-	-	-	-	-
Federal Indirect Cost Recoveries	-	3,479	-	-	-	-
Total Nonoperating Revenues (Expenses)	(42)	4,095	-	(21)	(6)	-
Income (Loss) Before Operating Transfers	27,099	5,313	122,289	95,390	77,921	66,692
Operating Transfers In (Note 13)	216	896	1,431	-	(10)	-
Transfers from Primary Government (Note 13)	-	-	-	-	50,091	-
Transfers from Component Units (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	(24,003)	(51)	(87,578)	-	-	-
Transfers to Primary Government (Note 13)	-	-	-	-	(1,303)	-
Net Income Before Cum Eff of Chg in Acctg Prin	3,312	6,158	36,142	95,390	126,699	66,692
Cum Eff of Chg in Acctg Prin	-	-	-	(1,417)	-	755
Net Income (loss)	3,312	6,158	36,142	93,973	126,699	67,447
RETAINED EARNINGS/FUND BALANCES - July 1 As Previously Reported	21,933	66,474	980,815	1,436,775	(401,727)	999,664
Prior Period Adjustments (Note 3)	97	710	(7)	6	(11)	-
RETAINED EARNINGS/FUND BALANCES - July 1 As Restated	22,030	67,184	980,808	1,436,781	(401,738)	999,664
Residual Equity Transfers (Note 13)	(422)	(19)	-	-	-	-
RETAINED EARNINGS/FUND BALANCES - JUNE 30	$ 24,920	$ 73,323	$ 1,016,950	$ 1,530,754	$ (275,039)	$ 1,067,111

The notes to the financial statements are an integral part of this statement.

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STATE OF MONTANA
Combined Statement of Cash Flows
All Proprietary Fund Types, Nonexpendable Trust Funds and Discretely Presented Component Units
For the Fiscal Year Ended June 30, 1995
(Expressed in Thousands)

	PROPRIETARY FUND TYPES			COMPONENT UNITS
	ENTERPRISE	INTERNAL SERVICE	NONEXPENDABLE TRUST	PROPRIETARY FUND TYPES
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from Sales and Services	$ 83,033	$ 126,904	$ 5,514	$ 181,641
Collections of Principal and Interest on Loans	8,948	-	-	70,223
Cash Payments for Loans	(6,318)	-	-	(82,551)
Payments to Suppliers for Goods and Services	(43,674)	(43,532)	-	(8,917)
Payments to Employees	(8,454)	(19,737)	-	(8,051)
Grant Receipts	-	3,314	-	-
Grant Payments	-	-	(22)	-
Cash Payments for Claims	(1,304)	(58,614)	-	(99,899)
Collections of Notes Receivable	-	-	-	(26)
Cash Payments for Prizes	(16,368)	-	-	-
Transfers from Other Funds	-	97	-	-
Scholarship/Fellowship Payments	-	-	(6)	-
Other Operating Revenues	3,696	29	39	1,591
Net Cash Provided by (Used for) Operating Activities	19,559	8,461	5,525	54,011
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Payment of Principal and Interest on Bonds and Notes	(8,961)	-	-	(125,377)
Proceeds from Issuance of Bonds and Notes	647	-	-	53,236
Payment of Bond Issuance Costs	-	-	-	(799)
Collection of Taxes	10,259	-	19,090	-
Transfers to Other Funds	(24,029)	(51)	(88,639)	638
Transfers to Primary Government	-	-	-	(2,625)
Transfers from Other Funds	216	792	1,454	104
Transfers from Primary Government	-	-	-	40,717
Cash Payments for Loans	-	(30)	-	-
Proceeds from Interfund Loans	(35)	360	-	-
Interfund Loan Payments	-	(235)	(2,945)	-
Residual Equity Transfers to Other Funds	(422)	(19)	-	-
Contributed Capital Transfers from Other Funds	-	1,113	-	-
Net Cash Provided by (Used for) Noncapital Financing Activities	(22,325)	1,930	(71,040)	(34,106)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of Fixed Assets	(811)	(10,825)	-	(3,449)
Proceeds from Sale of Fixed Assets	81	980	-	434
Principal and Interest Payments on Bonds and Notes	(7)	(1,294)	-	-
Net Cash Used for Capital and Related Financing Activities	(737)	(11,139)	-	(3,015)
CASH FLOW FROM INVESTING ACTIVITIES:				
Purchase of Investments	(9,179)	(20,805)	(189,018)	(1,226,226)
Proceeds from Sales or Maturities of Investments	10,426	17,721	165,355	1,179,156
Interest and Dividends on Investments	859	2,461	73,027	34,751
Arbitrage Rebate Tax	(3)	-	-	(187)
Collections of Principal on Loans	-	-	9,586	-
Cash Payments for Loans	-	-	(25,687)	-
Collection of Rents/Leases/Royalties	-	-	22,419	-
Net Cash Provided by (Used for) Investing Activities	2,103	(623)	55,682	(12,506)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,400)	(1,371)	(9,833)	4,384
Cash and Cash Equivalents, July 1	19,279	31,306	74,377	46,873
CASH AND CASH EQUIVALENTS, JUNE 30	$ 17,879	$ 29,935	$ 64,544	$ 51,257

The notes to the financial statements are an integral part of this statement.

	PROPRIETARY FUND TYPES			COMPONENT UNITS
	ENTERPRISE	INTERNAL SERVICE	NONEXPENDABLE TRUST	PROPRIETARY FUND TYPES
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating Income (Loss)	$ 27,141	$ 1,218	$ 122,289	$ 77,927
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:				
Depreciation	610	8,171	-	391
Amortization	6	119	-	272
Taxes	(10,259)	-	(23,836)	-
Interest Expense	2,876	144	-	42,087
Interest on Investments	(1,262)	(2,598)	(70,463)	(37,456)
Federal Indirect Cost Recoveries	-	3,479	-	-
Arbitrage Rebate Tax	78	-	-	126
Operating Transfers In	-	97	-	-
Rentals/Leases/Royalties	-	-	(22,393)	-
Change in Assets and Liabilities				
Decr (Incr) in Accounts Receivable	(448)	140	-	38,567
Decr (Incr) in Due From Other Governments	-	(5)	-	-
Decr (Incr) in Due From Other Funds	(26)	(604)	(77)	(454)
Decr (Incr) in Due From Primary Government	-	-	-	146
Decr (Incr) in Due From Component Units	1	(147)	-	-
Decr (Incr) in Inventories	393	(1,261)	-	(39)
Decr (Incr) in Intangible Assets	(5)	-	-	-
Decr (Incr) in Long-term Loans/Notes Receivable	135	-	-	(38,208)
Decr (Incr) in Other Assets	(235)	70	-	6,839
Incr (Decr) in Accounts Payable	601	(1,739)	5	515
Incr (Decr) in Lottery Prizes Payable	52	-	-	-
Incr (Decr) in Due to Other Funds	(13)	(1,148)	-	781
Incr (Decr) in Due to Other Governments	(9)	-	-	-
Incr (Decr) in Due to Primary Government	-	-	-	(128)
Incr (Decr) in Due to Component Units	-	10	-	-
Incr (Decr) in Deferred Revenue	(136)	(74)	-	(2,351)
Incr (Decr) in Bonds/Notes Payable	(68)	(13)	-	-
Incr (Decr) in Property Held in Trust	6	(153)	-	(13,973)
Incr (Decr) in Compensated Absences Payable	115	203	-	92
Incr (Decr) in Estimated Insurance Claims	6	2,552	-	(21,123)
Net Cash Provided by (Used For) Operating Activities	$ 19,559	$ 8,461	$ 5,525	$ 54,011
SCHEDULE OF NONCASH TRANSACTIONS:				
Fixed Asset Acquisitions from Capital Leases	$ 56	$ 273	$ -	$ -
Asset Acquisitions from Contributed Capital Transfers from Other Funds	238	2,211	-	-
Asset Disposals from Contributed Capital	-	(2,495)	-	-
Total Noncash Transactions	$ 294	$ (11)	$ -	$ -

RECONCILIATION FOR NONEXPENDABLE TRUST:

Cash and Cash Equivalents, June 30	$ 64,544
Cash and Cash Equivalents, Expendable Trust, Pension Trust and Agency	517,932
Cash and Cash Equivalents per Combined Balance Sheet, Trust and Agency	$ 582,476

STATE OF MONTANA
Combining Balance Sheet
Component Units - Proprietary Fund Types
June 30, 1995
(Expressed in Thousands)

	HOUSING AUTHORITY	HEALTH FACILITIES AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)	TOTALS
ASSETS:					
Cash/Cash Equivalents	$ 3,112	$ 391	$ 40,767	$ 6,987	$ 51,257
Receivables (Net)	4,660	108	24,566	305	29,639
Due from Primary Government (Note 13)	1	-	10	27,604	27,615
Due from Other Funds (Note 13)	-	-	2,042	108	2,150
Inventories	-	-	73	-	73
Long-Term Loans/Notes Receivable	341,501	296	-	-	341,797
Investments (Note 4)	154,542	200	418,542	10,809	584,093
Equipment	222	13	3,233	-	3,468
Accumulated Depreciation	(149)	(9)	(1,082)	-	(1,240)
Intangible Assets	10	-	1,472	-	1,482
Deferred Charges	6,006	-	-	3,787	9,793
Other Assets	29	-	1,625	64	1,718
TOTAL ASSETS	$ 509,934	$ 999	$ 491,248	$ 49,664	$ 1,051,845
LIABILITIES/FUND EQUITY:					
Liabilities:					
Accounts Payable	$ 5,395	$ 2	$ 579	$ 797	$ 6,773
Due to Primary Government (Note 13)	40	5	893	114	1,052
Due to Other Funds (Note 13)	6	-	109	1,974	2,089
Deferred Revenue	-	1	21,748	-	21,749
Bonds/Notes Payable (Net) (Note 12)	424,427	-	-	164,829	589,256
Property Held in Trust	-	-	1,835	-	1,835
Compensated Absences Payable	28	18	650	55	751
Estimated Insurance Claims (Note 9)	-	-	395,837	295,749	691,586
Arbitrage Rebate Tax Payable	125	-	-	84	209
Total Liabilities	430,021	26	421,651	463,602	1,315,300
Fund Equity:					
Contributed Capital (Note 17)	-	-	11,584	-	11,584
Retained Earnings:					
Reserved for Debt Service (Note 15)	79,913	-	-	14,169	94,082
Unreserved	-	973	58,013	(428,107)	(369,121)
Total Fund Equity	79,913	973	69,597	(413,938)	(263,455)
TOTAL LIABILITIES/FUND EQUITY	$ 509,934	$ 999	$ 491,248	$ 49,664	$ 1,051,845

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Combining Statement of Revenues, Expenses and Changes in Retained Earnings
Component Units - Proprietary Fund Types
For the Fiscal Year Ended June 30, 1995
(Expressed in Thousands)

	HOUSING AUTHORITY	HEALTH FACILITIES AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)	TOTALS
OPERATING REVENUES:					
Charges for Services	$ 81	$ 212	$ 30	$ -	$ 323
Investment Earnings	12,523	40	23,963	931	37,457
Contributions/Premiums	-	-	152,834	927	153,761
Other Operating Revenues	26,367	28	205	3	26,603
Total Operating Revenues	38,971	280	177,032	1,861	218,144
OPERATING EXPENSES:					
Personal Services	385	55	6,759	1,057	8,256
Contractual Services	379	47	2,903	324	3,653
Supplies/Materials	20	4	2,293	34	2,351
Benefits	-	-	99,986	(20,980)	79,006
Depreciation	18	1	372	-	391
Amortization	10	-	262	-	272
Utilities/Rent	31	-	140	16	187
Communications	28	4	409	62	503
Travel	27	11	121	10	169
Repair/Maintenance	38	-	107	12	157
Interest Expense	31,434	-	-	10,653	42,087
Arbitrage Rebate Tax	77	-	-	49	126
Other Operating Expenses	1,220	12	(119)	1,946	3,059
Total Operating Expenses	33,667	134	113,233	(6,817)	140,217
Operating Income (Loss)	5,304	146	63,799	8,678	77,927
NONOPERATING REVENUES (EXPENSES):					
Gain (Loss) Sale of Fixed Assets	(1)	-	(5)	-	(6)
Transfers from Primary Government (Note 13)	-	-	-	50,091	50,091
Transfers to Primary Government (Note 13)	-	-	-	(1,303)	(1,303)
Total Nonoperating Revenues (Expenses)	(1)	-	(5)	48,788	48,782
Income (Loss) Before Operating Transfers	5,303	146	63,794	57,466	126,709
Operating Transfers In	-	-	-	(10)	(10)
Net Income (Loss)	5,303	146	63,794	57,456	126,699
RETAINED EARNINGS - JULY 1 - As Previously Reported	74,610	827	(5,770)	(471,394)	(401,727)
Prior Period Adjustments (Note 3)	-	-	(11)	-	(11)
RETAINED EARNINGS - JULY 1- As Restated	74,610	827	(5,781)	(471,394)	(401,738)
RETAINED EARNINGS - JUNE 30	$ 79,913	$ 973	$ 58,013	$ (413,938)	$ (275,039)

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Combining Statement of Cash Flows
Component Units - Proprietary Fund Types
For the Fiscal Year Ended June 30, 1995
(Expressed in Thousands)

	HOUSING AUTHORITY	HEALTH FACILITIES AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)	TOTALS
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from Sales and Services	$ 64	$ 229	$ 181,277	$ 71	$ 181,641
Collections of Principal and Interest on Loans	70,127	96	-	-	70,223
Cash Payments for Loans	(82,164)	(387)	-	-	(82,551)
Payments to Suppliers for Goods and Services	(1,878)	(82)	(6,111)	(846)	(8,917)
Payments to Employees	(393)	(52)	(6,602)	(1,004)	(8,051)
Cash Payments for Claims	-	-	(77,185)	(22,714)	(99,899)
Collection of Notes Receivable	-	-	-	(26)	(26)
Other Operating Revenues	1,382	-	205	4	1,591
Net Cash Provided by (Used for) Operating Activities	(12,862)	(196)	91,584	(24,515)	54,011
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Payment of Principal and Interest on Bonds and Notes	(112,716)	-	-	(12,661)	(125,377)
Proceeds from Issuance of Bonds and Notes	53,236	-	-	-	53,236
Payment of Bond Issuance Costs	(799)	-	-	-	(799)
Transfers to Other Funds	-	-	-	638	638
Transfers from Other Funds	-	-	-	104	104
Transfers to Primary Government	-	-	-	(2,625)	(2,625)
Transfers from Primary Government	-	-	-	40,717	40,717
Net Cash Provided by (Used for) Noncapital Financing Activities	(60,279)	-	-	26,173	(34,106)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition of Fixed Assets	(53)	-	(3,396)	-	(3,449)
Proceeds from Sale of Fixed Assets	-	-	434	-	434
Net Cash Used for Capital and Related Financing Activities	(53)	-	(2,962)	-	(3,015)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of Investments	(993,190)	(200)	(231,745)	(1,091)	(1,226,226)
Proceeds from Sales or Maturities of Investments	1,055,714	200	122,210	1,032	1,179,156
Interest and Dividends on Investments	11,385	36	22,357	973	34,751
Arbitrage Rebate Tax	(187)	-	-	-	(187)
Net Cash Provided by (Used for) Investing Activities	73,722	36	(87,178)	914	(12,506)
Net Increase (Decrease) in Cash and Cash Equivalents	528	(160)	1,444	2,572	4,384
Cash and Cash Equivalents, July 1	2,584	551	39,323	4,415	46,873
Cash and Cash Equivalents, June 30	$ 3,112	$ 391	$ 40,767	$ 6,987	$ 51,257

The notes to the financial statements are an integral part of this statement.

	HOUSING AUTHORITY	HEALTH FACILITIES AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)	TOTALS
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
Operating Income (Loss)	$ 5,304	$ 146	$ 63,799	$ 8,678	$ 77,927
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:					
Depreciation	18	1	372	-	391
Amortization	10	-	262	-	272
Interest Expense	31,434	-	-	10,653	42,087
Interest on Investments	(12,522)	(40)	(23,963)	(931)	(37,456)
Arbitrage Rebate Tax	77	-	-	49	126
Change in Assets and Liabilities:					
Decr (Incr) in Accounts Receivable	920	(86)	37,643	90	38,567
Decr (Incr) in Due From Other Funds	-	-	(347)	(107)	(454)
Decr (Incr) in Due From Primary Government	-	-	146	-	146
Decr (Incr) in Inventories	-	-	(39)	-	(39)
Decr (Incr) in Long-Term Loans/Notes Receivable	(37,993)	(215)	-	-	(38,208)
Decr (Incr) in Other Assets	(27)	1	6,929	(64)	6,839
Incr (Decr) in Accounts Payable	(4)	2	474	43	515
Incr (Decr) in Due to Other Funds	-	(1)	109	673	781
Incr (Decr) in Due to Primary Government	(54)	(5)	(183)	114	(128)
Incr (Decr) in Deferred Revenue	(9)	-	(2,342)	-	(2,351)
Incr (Decr) in Property Held in Trust	-	-	(13,973)	-	(13,973)
Incr (Decr) in Compensated Absences Payable	(16)	1	83	24	92
Incr (Decr) in Estimated Insurance Claims	-	-	22,614	(43,737)	(21,123)
Net Cash Provided by (Used for) Operating Activities	$ (12,862)	$ (196)	$ 91,584	$ (24,515)	$ 54,011

STATE OF MONTANA
Combining Balance Sheet
Component Units - All Higher Education Funds
June 30, 1995
(Expressed in Thousands)

	CURRENT FUNDS			
	UNRESTRICTED			
	GENERAL OPERATING	DESIGNATED	AUXILIARY	RESTRICTED
ASSETS:				
Cash/Cash Equivalents	$ 13,446	$ 17,458	$ 10,058	$ 3,079
Receivables (Net)	2,030	371	747	6,818
Interfund Loans Receivable (Note 13)	300	1,500	-	-
Due from Other Governments	3	3	-	3,316
Due from Primary Government (Note 13)	13	108	222	735
Due from Other Funds (Note 13)	4,989	3,892	843	332
Inventories	81	1,489	2,174	-
Equity in Pooled Investments	-	-	-	-
Long-Term Notes/Loans Receivable	-	-	-	-
Investments (Note 4)	-	-	-	-
Land	-	-	-	-
Buildings/Improvements	-	-	-	-
Equipment	-	-	-	-
Other Fixed Assets	-	-	-	-
Construction in Progress	-	-	-	-
Intangible Assets	-	-	-	-
Deferred Charges	-	-	-	-
Other Assets	2,172	1,052	21	226
TOTAL ASSETS	$ 23,034	$ 25,873	$ 14,065	$ 14,506
LIABILITIES/FUND BALANCES:				
Liabilities:				
Accounts Payable	$ 10,652	$ 3,039	$ 1,366	$ 2,601
Interfund Loans Payable (Note 13)	-	-	-	1,800
Due to Other Governments	271	14	-	80
Due to Primary Government (Note 13)	677	338	25	22
Due to Other Funds (Note 13)	3,892	2,902	1,880	3,557
Deferred Revenue	4,037	1,719	726	3,957
Lease/Installment Purchase Payable (Note 11)	-	-	-	-
Bonds/Notes Payable (Note 12)	201	8	4	-
Property Held in Trust	149	17	359	4
Compensated Absences Payable (Note 1)	18,673	3,940	1,508	110
Total Liabilities	38,552	11,977	5,868	12,131
Fund Balances:				
Net Investment in Plant	-	-	-	-
Reserved For:				
Encumbrances	1,544	42	-	24
Debt Service	-	-	-	-
Student Loans/Endowments	-	-	-	-
Construction	-	-	-	-
Unreserved	(17,062)	13,854	8,197	2,351
Total Fund Balances	(15,518)	13,896	8,197	2,375
TOTAL LIABILITIES/FUND BALANCES	$ 23,034	$ 25,873	$ 14,065	$ 14,506

The notes to the financial statements are an integral part of this statement.

FIDUCIARY FUNDS			PLANT FUNDS				
STUDENT LOANS	ENDOWMENTS	AGENCY	UNEXPENDED	RENEWAL AND REPLACEMENT	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT	TOTALS
$ 2,906	$ 3,372	$ 2,345	$ 16,965	$ 11,720	$ 4,687	$ -	$ 86,036
23,291	1	296	433	80	632	-	34,699
-	-	-	-	-	-	-	1,800
-	-	-	-	-	-	-	3,322
1	-	91	126	97	144	-	1,537
13	-	4,816	120	525	837	-	16,367
-	-	-	-	-	-	-	3,744
-	290	42	-	-	-	-	332
-	-	-	26	-	-	-	26
-	1,437	-	26,357	2,745	610	-	31,149
-	-	-	-	-	-	12,397	12,397
-	-	-	-	-	-	298,232	298,232
-	-	-	-	-	-	118,729	118,729
-	-	-	-	-	-	70,549	70,549
-	-	-	27,803	1,339	-	22,437	51,579
-	-	-	-	-	-	2,357	2,357
-	-	-	-	-	1,133	-	1,133
-	-	258	64	-	-	-	3,793
$ 26,211	$ 5,100	$ 7,848	$ 71,894	$ 16,506	$ 8,043	$ 524,701	$ 737,781
$ 46	$ -	$ 735	$ 3,042	$ 555	$ 760	$ -	$ 22,796
-	-	-	-	-	-	-	1,800
-	-	308	-	-	-	-	673
-	-	804	22	4	-	-	1,892
118	-	2,197	282	251	180	-	15,259
-	-	-	54	75	40	-	10,608
-	-	-	-	-	-	2,247	2,247
-	-	-	47,959	870	1,388	67,311	117,741
-	-	3,804	-	-	-	-	4,333
-	-	-	-	-	-	-	24,231
164	-	7,848	51,359	1,755	2,368	69,558	201,580
-	-	-	-	-	-	455,143	455,143
-	-	-	58	13	-	-	1,681
-	-	-	-	-	593	-	593
24,372	4,180	-	-	-	-	-	28,552
-	-	-	11,294	3,236	-	-	14,530
1,675	920	-	9,183	11,502	5,082	-	35,702
26,047	5,100	-	20,535	14,751	5,675	455,143	536,201
$ 26,211	$ 5,100	$ 7,848	$ 71,894	$ 16,506	$ 8,043	$ 524,701	$ 737,781

STATE OF MONTANA
Statement of Changes in Fund Balance
Component Units - All Higher Education Funds
For the Fiscal Year Ended June 30, 1995
(Expressed in Thousands)

	CURRENT FUNDS			
	UNRESTRICTED			
	GENERAL OPERATING	DESIGNATED	AUXILIARY	RESTRICTED
REVENUES/OTHER ADDITIONS:				
Tuition/Fees	$ 69,388	$ 9,671	$ 8,275	$ -
Federal Grants/Contracts	4,314	50	-	67,990
State Grants/Contracts	-	316	-	7,322
Local Grants/Contracts	-	-	-	601
Private Gifts/Grants/Donations	-	583	1	14,195
Endowment Income	-	-	-	1
Sales/Services-Educational Activities	790	1,532	1	62
Sales/Services-Designated/Auxiliary Enterprises	3	19,194	44,433	80
Indirect Costs Recovered	272	7,131	-	-
Investment Earnings	137	90	766	250
Gains - Investment Transactions	-	-	-	-
Acquisition of Long-Lived Assets	-	-	-	-
Retirement of Indebtedness	-	-	-	-
Other Revenues/Additions	163	2,409	766	934
Total Revenues/Other Additions	75,067	40,976	54,242	91,435
Intrafund Revenues/Other Additions	(60)	(2)	-	(339)
Net Revenues/Other Additions	75,007	40,974	54,242	91,096
EXPENDITURES/OTHER DEDUCTIONS:				
Instruction	90,189	4,443	-	5,004
Research	11,087	5,256	-	31,259
Public Service	5,824	4,256	-	14,282
Academic Support	15,470	8,727	-	1,928
Student Services	14,620	9,905	-	3,461
Institutional Support	16,317	1,710	-	417
Independent Operations	1,784	-	-	-
Scholarships/Fellowships	5,950	300	-	29,431
Auxiliary Enterprises	-	11	43,595	93
Operation/Maintenance of Plant	19,518	(67)	-	60
Expended for Plant	-	-	-	-
Debt Services	153	242	114	23
Capital Outlay	5,418	3,288	191	4,466
Disposal of Long-Lived Assets	-	-	-	-
Debt Incurred	-	-	-	-
Other Expenditures/Deductions	507	286	80	87
Total Expenditures/Other Deductions	186,837	38,359	43,980	90,511
Intrafund Expenditures/Other Deductions	(60)	(2)	-	(339)
Net Expenditures/Other Deductions	186,777	38,357	43,980	90,172
TRANSFERS IN (OUT)/OTHER ADDITIONS (DEDUCTIONS):				
Transfers from State General Fund	96,292	-	-	6
Millage Transfers	15,163	-	-	-
Mandatory Transfers	990	(422)	(7,196)	7
Nonmandatory Transfers	(912)	(1,181)	(1,464)	(900)
Other Transfers	-	-	197	-
Total Transfers In (Out) (Note 13)	111,533	(1,603)	(8,463)	(887)
Move Equity to Investment in Plant	-	-	-	-
Loan Proceeds	-	1	-	-
Bond Proceeds	-	-	-	-
Gain (Loss) on Debt Extinguishment	-	-	-	-
Total Transfers In (Out)/Other Additions (Deductions)	111,533	(1,602)	(8,463)	(887)
Net Increase (Decrease) in Fund Balances	(237)	1,015	1,799	37
FUND BALANCES - July 1 - As Previously Reported	(15,279)	12,943	6,478	2,334
Prior Period Adjustments (Note 3)	(2)	-	-	5
FUND BALANCES - July 1 - As Restated	(15,281)	12,943	6,478	2,339
Residual Equity Transfers (Note 13)	-	(62)	(80)	(1)
FUND BALANCES - June 30	$ (15,518)	$ 13,896	$ 8,197	$ 2,375

The notes to the financial statements are an integral part of this statement.

FIDUCIARY FUNDS		PLANT FUNDS			
STUDENT LOANS	ENDOWMENTS	UNEXPENDED	RENEWAL AND REPLACEMENT	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT
$ -	$ -	$ 1,962	$ 1,222	$ 2,451	$ -
832	-	-	5	23	-
139	-	-	-	-	-
-	-	-	-	-	-
77	237	204	85	-	-
-	98	-	-	-	-
-	-	-	-	-	-
-	-	64	57	-	-
-	-	-	-	-	-
367	15	2,503	564	414	-
-	-	-	-	-	-
-	-	-	-	-	45,050
-	-	-	-	-	5,883
470	-	1,181	114	1,142	-
1,885	350	5,914	2,047	4,030	50,933
-	-	(20)	(37)	-	-
1,885	350	5,894	2,010	4,030	50,933
-	-	43	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
41	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	1,693	2,639	23	-
-	-	1,029	161	9,999	-
-	-	383	2,696	-	-
-	-	-	-	-	8,184
-	-	-	-	-	3,275
400	-	-	-	-	-
441	-	3,148	5,496	10,022	11,459
-	-	(20)	(37)	-	-
441	-	3,128	5,459	10,022	11,459
-	6	26	22	-	-
-	-	-	-	-	-
12	-	(2,438)	443	9,790	-
10	941	897	6,860	(3,838)	-
-	-	674	29	733	-
22	947	(841)	7,354	6,685	-
-	-	(115)	(1,149)	-	-
-	-	410	-	-	-
-	-	-	-	41	-
-	-	-	-	-	-
22	947	(546)	6,205	6,726	-
1,466	1,297	2,220	2,756	734	39,474
24,581	3,254	18,315	11,852	4,941	415,669
-	549	-	-	-	-
24,581	3,803	18,315	11,852	4,941	415,669
-	-	-	143	-	-
$ 26,047	$ 5,100	$ 20,535	$ 14,751	$ 5,675	$ 455,143

STATE OF MONTANA
Statement of Current Funds Revenues, Expenditures, Transfers and Other Changes
Component Units - Higher Education Fund Type
For the Fiscal Year Ended June 30, 1995
(Expressed in Thousands)

	CURRENT FUNDS			
	UNRESTRICTED			
	GENERAL OPERATING	DESIGNATED	AUXILIARY	RESTRICTED
REVENUES:				
Tuition/Fees	$ 69,388	$ 9,671	$ 8,275	$ -
Federal Grants/Contracts	4,314	50	-	67,990
State Grants/Contracts	-	316	-	7,322
Local Grants/Contracts	-	-	-	601
Private Gifts/Grants/Donations	-	583	1	14,195
Endowment Income	-	-	-	1
Sales/Services-Educational Activities	790	1,532	1	62
Sales/Services-Designated/Auxiliary Enterprises	3	19,194	44,433	80
Indirect Costs Recovered	272	7,131	-	-
Investment Earnings	137	90	766	250
Other Revenues	163	2,409	766	934
Total Revenues	75,067	40,976	54,242	91,435
Intrafund Revenues	(60)	(2)	-	(339)
Net Revenues	75,007	40,974	54,242	91,096
EXPENDITURES:				
Educational and General:				
Instruction	90,189	4,443	-	5,004
Research	11,087	5,256	-	31,259
Public Service	5,824	4,256	-	14,282
Academic Support	15,470	8,727	-	1,928
Student Services	14,620	9,905	-	3,461
Institutional Support	16,317	1,710	-	417
Scholarships/Fellowships	5,950	300	-	29,431
Operation/Maintenance of Plant	19,518	(67)	-	60
Other Expenditures	507	288	80	87
Total Educational and General Expenditures	179,482	34,818	80	85,929
Intrafund Expenditures	(60)	(2)	-	(339)
Net Educational and General Expenditures	179,422	34,816	80	85,590
Auxiliary Enterprises	-	11	43,595	93
Independent Operations	1,784	-	-	-
Debt Services	153	242	114	23
Capital Outlay	5,418	3,288	191	4,466
Total Expenditures	186,777	38,357	43,980	90,172
TRANSFERS IN (OUT):				
Transfers from State General Fund	96,292	-	-	6
Millage Transfers	15,163	-	-	-
Mandatory Transfers	990	(422)	(7,196)	7
Nonmandatory Transfers	(912)	(1,181)	(1,464)	(900)
Other Transfers	-	-	197	-
Total Transfers In (Out) (Note 13)	111,533	(1,603)	(8,463)	(887)
OTHER ADDITIONS (DEDUCTIONS):				
Loan Proceeds	-	1	-	-
Total Other Additions (Deductions)	-	1	-	-
Net Increase (Decrease) in Fund Balances	$ (237)	$ 1,015	$ 1,799	$ 37

The notes to the financial statements are an integral part of this statement.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements for the State of Montana have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements of the Higher Education Funds have been prepared in conformity with GAAP for colleges and universities as prescribed by the American Institute of Certified Public Accountants.

A. Reporting Entity - For financial reporting purposes, the State of Montana has included all funds and account groups which comprise the State of Montana (the primary government) and its component units. The component units are entities for which the State is financially accountable, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

Discrete Component Units

These component units are entities which are legally separate from the State because they possess corporate powers, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. Complete financial statements of the individual component units, which issue separate financial statements, can be obtained from their respective administrative offices. The Component Units columns of the combined financial statements include the financial data of these entities:

Housing Authority (Proprietary Fund Type) - This Authority is a quasi-judicial board, consisting of seven members appointed by the Governor, created in 1975 to facilitate the availability of decent, safe and sanitary housing to persons and families of lower income. The Board issues negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed $975,000,000. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. The Authority is audited annually by the Legislative Auditor and its report is issued under separate cover.

Health Facilities Authority (Proprietary Fund Type) - This Authority is governed by a quasi-judicial board appointed by the Governor with the advice and consent of the Senate. Its purpose is to contain future health care costs by offering debt financing or refinancing at reduced rates to Montana non-profit private and public health care institutions for purchases of capital equipment and buildings. The Board issues revenue bonds to fulfill its purposes. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. The Authority is audited by the Legislative Auditor every two years and its report is issued under separate cover.

State Compensation Insurance Fund (New and Old) (Proprietary Fund Type) - The Fund is a quasi-governmental corporation governed by a five member board appointed by the Governor. The Fund provides workers' compensation insurance. The New Fund covers claims incurred after June 30, 1990, and is financed by member (employer) premiums. The Old Fund covers claims incurred before July 1, 1990, and is financed by a .5 percent tax on each employer as well as a .2 percent tax on employee wages and net income of self-employed persons. Administrative operations and budgets are reviewed by the Governor and the Legislature. The Fund is audited annually by the Legislative Auditor and its report is issued under separate cover.

Teachers' Retirement System (Pension Trust Fund Type) - This retirement system is a legally separate entity with a board appointed by the Governor. Its purpose is to provide retirement, disability, death and lump sum payments to members of Montana's public teaching profession. The administrative costs of the Teachers' Retirement Division are paid from interest earnings of the fund. The system is funded from employer and employee contributions and interest earnings. The system is audited annually by the Legislative Auditor and its report is issued under separate cover.

Universities and Colleges (Higher Education Funds) - The State Board of Regents has responsibility for the following institutions: University of Montana and the units under it including Montana Tech of the University of Montana, Western Montana College of the University of Montana, the Colleges of Technology at Helena and Missoula and the Division of Technology at Butte; and Montana State University and the units under it including Montana State University - Billings, Montana State University - Northern, and the Colleges of Technology located in Billings and Great Falls. All units are funded through State appropriations, tuition, federal grants, and private donations and grants. The units are audited by the Legislative Auditor every two years and their reports are issued under separate cover.

Though the following organizations perform functions related to the higher education units, they are not considered part of Montana's reporting entity: (1) Community Colleges which are considered part of local units of government; and both (2) the Montana Higher Education Student Assistance Corporation, a private non-profit corporation, and (3) private foundations supporting public education, over which the State exercises neither financial nor administrative control (see Note 19). Entities such as local school districts and local authorities of various kinds are considered part of local units of government and have not been included. The State's support of local public education systems is reported in the General and State Special Revenue Funds.

B. Fund Structure - The State uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

The financial activities of the State of Montana are classified into fund categories and account groups as described below:

GOVERNMENTAL FUNDS

General Fund - To account for all governmental financial resources except those required to be accounted for in another fund.

Special Revenue Funds - To account for the proceeds of specific revenue sources restricted to expenditure for specified purposes (other than expendable trusts or major capital projects).

Debt Service Funds - To account for resources accumulated for payment of principal and interest on general long-term obligation debt.

Capital Projects Funds - To account for resources used for the acquisition or construction of major capital facilities (other than those financed by proprietary or trust funds).

PROPRIETARY FUNDS

Enterprise Funds - To account for operations (1) financed and operated similar to private business enterprises, where the intent of the legislature is to finance or recover costs primarily through user charges; or (2) where the legislature has decided periodic determination of revenue earned, expenses incurred, or net income is appropriate.

Internal Service Funds - To account for the financing of goods and services provided by one department or agency to other departments, agencies or other governmental entities on a cost-reimbursement basis.

FIDUCIARY FUNDS

Trust and Agency Funds - To account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. These include: (1) Expendable Trust Funds; (2) Nonexpendable Trust Funds; (3) Pension Trust Funds; and (4) Agency Funds.

ACCOUNT GROUPS

General Fixed Assets Account Group - To account for all fixed assets of the State, except those accounted for in the Proprietary, Nonexpendable Trust, Pension Trust and Plant Funds.

General Long-Term Obligations Account Group - To account for all long-term obligations of the State, except those accounted for in Proprietary, Nonexpendable Trust, Pension Trust and Plant Funds.

HIGHER EDUCATION (UNIVERSITY AND COLLEGE) FUNDS

Current Funds

Unrestricted

General Operating - To account for the portion of financial resources that can be expended for general operations and is free of externally imposed restrictions, except those imposed by the legislature.

Designated - To account for those resources associated with general operations which are separately classified in order to accumulate costs recharged to other funds and to identify special activities of educational departments which are supported by supplemental assessments and the receipt and disposition of special supply and facility fees which are approved for collection beyond normal course fees.

Auxiliary - To account for those financial resources devoted to providing essential on-campus services primarily to students, faculty or staff where a fee relating to the service is charged.

Restricted - To account for the portion of financial resources that can be expended only for purposes imposed by sources external to the Board of Regents and the legislature.

Fiduciary Funds

Student Loans - To account for moneys which may be loaned to students, faculty or staff for purposes related to education, organized research or public services by the higher education units.

Endowments - To account for moneys where the principal is available for investment. Investment earnings are to be transferred to (or recorded directly in) appropriate operating funds pursuant to prevailing administrative requirements.

Agency - To account for moneys where the State acts in the capacity of a custodian or fiscal agent for individual students, faculty, staff or qualified organizations.

Plant Funds

Unexpended - To account for unexpended resources derived from various sources which are used to finance the acquisition/construction of plant assets and the associated liabilities.

Renewal and Replacement - To account for resources used to provide for the renewal and replacement of plant fund assets as distinguished from additions and improvements.

Retirement of Indebtedness - To account for resources accumulated for interest and principal payments and other debt service charges, including contributions to reserves, relating to plant fund indebtedness.

Investment in Plant - To account for all long-lived assets in the service of the higher education unit as well as all associated liabilities.

C. Basis of Accounting - The accounting and reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds and Expendable Trust Funds are accounted for on a spending or "financial flow" measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is followed in the Governmental Funds and Expendable Trust Funds. Under the modified accrual basis, revenues are susceptible to accrual and recognized when they are measurable and available to pay current period liabilities. Intergovernmental revenues received as reimbursements are recognized based upon the expenditures incurred. Intergovernmental revenues received but not earned are recorded as deferred revenues. All other revenue including taxes on coal sales, gas and oil production, individual income and other self-assessed taxes is considered available if due within 60 days of fiscal year-end. Based on historical analysis, a liability has been recognized for collected withholding taxes to be refunded in fiscal year 1996. Expenditures are recognized when the related fund liability is incurred, with the following exceptions:

(1) principal and interest on long-term debt is recognized when due;
(2) prepayments are accounted for as expenditures in the period of acquisition; and
(3) inventory items are considered expenditures when purchased.

All Proprietary, Pension Trust and Nonexpendable Trust Funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means all assets and liabilities associated with these activities are included on their balance sheets. Operating statements for these funds present increases (revenues) and decreases (expenses) in net total assets.

Proprietary, Pension Trust, Nonexpendable Trust and Higher Education Funds are maintained and reported on the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable. In Higher Education Funds, depreciation expense related to plant fund assets is not recorded; student tuition and fees are fully recognized in the fiscal year in which the related courses or activities are principally conducted. Unbilled receivables of Proprietary and Higher Education Funds are recognized as revenue.

Significant intrafund transactions and balances have been eliminated.

D. Cash/Cash Equivalents - For all funds, except the Housing Authority in the Component Unit Proprietary Fund, cash and cash equivalents consist of cash deposits, cash invested in the Short-Term Investment Pool (STIP) and short-term, highly liquid investments with original maturities of three months or less. The Housing Authority considers cash and cash equivalents to be cash held by the state treasurer, other cash deposits, and mortgage payments in transit (See Note 4).

E. Receivables - This classification, net of estimated uncollectibles, consists primarily of receivables for goods sold and services provided; short-term loans and notes; interest and dividends; taxes due within 60 days of fiscal year-end; and income, withholding and inheritance taxes that are past due. An allowance for uncollectible taxes is provided based upon historical analysis. The allowance for uncollectible taxes at June 30, 1995, is $16.67 million.

F. Inventories - Inventories of materials and supplies are stated at cost. The State allows agencies to use any generally accepted inventory pricing method, but specifies the first-in, first-out method should be appropriate for most agencies.

Governmental and Expendable Trust Funds use the "purchase method," meaning inventory purchases are recorded as expenditures. At fiscal year-end, significant amounts of inventory are shown as a reserve of fund balance, indicating they do not constitute "available spendable resources."

Proprietary, Pension Trust, Nonexpendable Trust and Higher Education Funds report using the "consumption method," meaning inventories are expensed as used.

G. Investments - In accordance with the statutorily mandated "Prudent Expert Principle", the State of Montana invests in various types of securities for each portfolio it manages. Certain securities including asset-backed securities, variable-rate instruments, zero coupon bonds, preferred stocks, and mortgage-backed securities are purchased for portfolio diversification and a competitive rate of return. All investments, except the deferred compensation plan investments, are reported at cost or amortized cost in the balance sheet. The deferred compensation plan investments are carried at market value. Investments are reported by type in the disclosure of custodial credit risk for each investment portfolio (See Note 4 on Cash/Cash Equivalents and Investments).

H. Deferred Charges - Unamortized bond issuance costs are reported in this category.

I. Deferred Revenue - Deferred revenues are those for which asset recognition criteria have been met but for which revenue recognition criteria have not been met.

J. Compensated Absences - Full-time state employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Teachers employed by the State do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 40 hours of sick leave to a nonrefundable sick leave pool. For fiscal year 1995, 1,022 hours were contributed to the sick leave pool and 1,110 hours were withdrawn leaving a balance of 4,603 hours in the pool. No liability is reported in the accompanying financial statements because these hours are nonrefundable to participants except by grants approved through an application process.

Vested or accumulated leave of Proprietary and Pension Trust Funds is recorded as an expense and liability of those funds; for higher education the expense and liability is recorded in the current unrestricted funds as the benefits accrue to employees. The liability amount recorded in the General Long-Term Obligations Account Group is not expected to be liquidated with expendable financial resources, thus no expenditure or liability is reported in the governmental funds. Upon retirement or termination, an employee is paid for 100% of unused vacation leave and 25% of unused sick leave.

K. Encumbrances - For budget control purposes, the State utilizes encumbrance accounting, under which purchase orders, contracts and other commitments are recorded as expenditures and liabilities in order to reserve that portion of the applicable appropriation. Encumbrances outstanding at fiscal year-end are reported as reservations of fund balances for subsequent year expenditures.

L. Fund Balance/Retained Earnings Reserves - Portions of fund equity are reported as "reserved" to indicate (1) amounts not available for expenditure, such as equity represented by inventories; and (2) amounts legally segregated for a specific future use, such as those pledged for debt service and retirement benefits or legally-binding contractual agreements.

M. Property Taxes - Real property taxes are levied in October and are payable in two installments on November 30 and May 31. These taxes attach as an enforceable lien immediately if not paid when due. The State recognizes property tax revenues as available if they are collectible within 60 days after fiscal year-end. Material delinquent and total uncollected current year property taxes receivable are recorded in Receivables (Net of Uncollectibles).

Personal property tax levies are set each August and notices are normally mailed the following March or April. Half of mobile home taxes are due in 30 days and the remaining half on September 30. Taxes on all other types of personal property are to be paid in full 30 days after receipt of the notice. Personal property taxes attach as an enforceable lien immediately if not paid when due.

Property taxes are collected by each of Montana's 56 counties. The counties then remit the State's portion to the State Treasury. The majority of these taxes help fund public school systems and higher education.

N. Other Taxes - On the Combined Statement of Revenues, Expenditures and Changes in Fund Balances for All Governmental Fund Types and Expendable Trust Funds, the revenue category "Other Taxes" consists of the following taxes (in thousands):

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund
Video Gaming	$10,375	$20,660	$ -	$ -
Insurance Premium	20,571	8,524	-	-
University System Millage	-	14,217	-	-
Cigarette/Tobacco	-	1,529	10,668	2,394
Inheritance/Estate	19,019	-	-	-
Accommodations	112	8,479	-	-
Alcoholic Beverage	2,108	2,479	-	-
Miscellaneous	10,785	12,116	-	-
TOTAL OTHER TAXES	$62,970	$68,004	$10,668	$2,394

2. BUDGETARY REPORTING

A. State Budget Process - Montana is a biennial budget state. The constitution requires that legislative appropriations not exceed available revenues. The legislature only utilizes revenue estimates in the budgetary process to establish appropriation levels. Expenditures may not legally exceed budgeted appropriations. In addition, the State Constitution prohibits borrowing to cover deficits incurred because appropriations exceeded anticipated revenues. State law requires an appropriation for disbursements from the General, Special Revenue, Capital Projects, Enterprise and Internal Service Funds, except for those State Special Revenue Funds which receive donations. Budgets may be established in other funds for administrative purposes.

Agency budget requests are submitted to the Governor and the legislative fiscal analyst. The Governor and budget director establish priorities and balance the budget. The Governor's budget is submitted to the legislative fiscal analyst

who then prepares recommendations. A comparison of those recommendations with the Governor's budget is submitted to the legislature. Joint appropriations subcommittee hearings are held and an omnibus appropriation bill is reported in the House and subsequently sent to the Senate. The legislature generally enacts one bill making all appropriations for the next two fiscal years. The Office of Budget and Program Planning establishes appropriations for each program by accounting entity (fund) within an agency. The legislature enacts other appropriations, but only within the available revenue. Agencies must prepare and submit to the budget director operational plans showing the allocation of operating budgets by expenditure category (i.e., personal services, operating expenses, equipment, etc.). The budget director or other statutorily designated approving authority may authorize changes among expenditure categories and transfers between program appropriations.

Appropriations may not be increased by amendment in the General Fund. However, a department, institution or agency of the executive branch desiring authorization to make expenditures from the General Fund during the first fiscal year of the biennium from appropriations for the second fiscal year of the biennium may apply for authorization from the Governor through the budget director. Additionally, the Governor, or his designee, may approve budget amendments for non-general fund moneys not available for consideration by the legislature and for emergencies. In the accompanying financial statements, reported budget amounts are as amended. Budget amendments authorized for fiscal year 1995 were not material. There were no expenditures in excess of total authorized appropriations in the State's budgeted funds for the fiscal year.

Appropriations may be continued into the next fiscal year when authorized by the legislature or the governor's office. After fiscal year-end, appropriations that are not continued are reverted. The reverted appropriations remain available for one fiscal year for expenditures that exceed the amount accrued/encumbered. Fund balances/retained earnings are not reserved for reverted appropriations. For fiscal year 1995, reverted appropriations for all funds were $314.6 million of which $35.6 million were for the General Fund and $120.3 were for the Special Revenue Fund. Beginning with fiscal year 1994, agencies have the opportunity to carry forward 30% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of the budget office.

Because appropriations for Capital Projects Funds are not made on an annual basis, activities for the Capital Projects Funds are not presented in the Combined Statement of Revenues, Expenditures, Other Financing Sources (Uses) and Reconciliation of Budget and Actual (Budgetary Basis) to GAAP Basis - Unreserved Fund Balance.

B. Budget Basis - The legislature's legal authorization ("appropriations") to incur obligations is enacted on a basis inconsistent with GAAP. The budget basis differs from GAAP for encumbrances outstanding at fiscal year-end; compensated absences, fixed assets and inventories purchased in Proprietary Funds; compensated absences and inventories purchased in Higher Education Funds; certain loans from Governmental Funds; and other miscellaneous nonbudgeted activity (e.g., bad-debt write-offs, etc.). The General and Special Revenue Fund Type budgetary statement includes a reconciliation of unreserved fund balance between "Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses" on the budgetary basis and the GAAP basis.

3. ACCOUNTING AND REPORTING CHANGES

The State made changes in its accounting and reporting practices to enhance conformance with GAAP. Except for the changes highlighted below, all changes reported in the accompanying financial statements, which resulted in the restatement of beginning fund equity, were made to correct errors of prior periods.

The State implemented GASB Statement 21 - Accounting for Escheated Property, which resulted in a prior period adjustment of $223,000 in the Expendable Trust Funds. This activity was previously reported in Agency Funds.

The State also changed its method of recognizing gains and losses on bond swaps in the Pension Trust Funds from deferral and amortization to immediate recognition. This new method is preferable because it meets the revenue recognition criteria for Pension Trust Funds. The effect of this change is shown on the Combined Statement of Revenues, Expenditures and Changes in Fund Balances as "Cumulative Effect of Change in Accounting Principle".

4. CASH/CASH EQUIVALENTS AND INVESTMENTS

This footnote details the following balance sheet classifications (in thousands):

Cash/Cash Equivalents	$ 1,132,682
Equity in Pooled Investments	$ 2,462,365
Investments	$ 1,751,305

Carrying amounts and market values (Bank Balance for Cash Deposits) for the State's cash/cash equivalents and investments are presented in Tables 1 through 6.

A. General

(1) Cash and cash equivalents consist of cash deposits, cash invested in the Short Term Investment Pool and investments categorized as cash equivalents.

Deposits with financial institutions are categorized to indicate the level of risk assumed by the State in Table 1. **Category 1** consists of deposits that are insured or collateralized with securities held by the state or by its agent in the state's name.

Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the state's name. **Category 3** deposits are uncollateralized. The State's Cash Deposits are categorized in Table 1.

The State's cash equivalents and investments are categorized to indicate the risk level assumed by the State in Table 2 - Short-Term Investment Pool (STIP), Table 3 - Cash Equivalents, Table 4 - Equity in Pooled Investments and Table 6 - Investments to disclose the level of risk assumed by the State at fiscal year-end.

Category 1 includes investments that are insured or registered, securities held by the State or its agent in the State's name. **Category 2** includes uninsured and unregistered investments in which the securities are held by the counterparty's trust department or agent in the State's name. **Category 3** includes uninsured and unregistered investments in which the securities are held by the counterparty, or by its trust department or agent, but not in the State's name. None of the State's cash equivalents or investments were classified in Category 3 at fiscal year-end.

(2) The State invests in certain types of securities including asset-backed securities, variable-rate instruments, zero coupon bonds, preferred stocks (convertible equity securities), and mortgage-backed securities in addition to other long term investment securities to provide a diversified investment portfolio and an overall competitive rate of return. All securities are reported by investment portfolio and type in Table 2 - Short-Term Investment Pool (STIP), Table 4 - Equity in Pooled Investments, and Table 6 - Investments.

Asset-backed securities represent debt securities collateralized by a pool of non-mortgage assets such as trade and loan receivables, equipment leases, credit cards, etc.. These securities have less credit risk than do securities not backed by pledged assets, while market risk for asset-backed securities is the same as market risk for similar non asset-backed securities.

Variable-rate instruments pay a variable rate of interest until maturity. The variable rate floats with the 91 day treasury bill or the London Interbank Offered Rate (LIBOR). Variable-rate instruments have credit risk identical to similar fixed-rate securities; however, their market risk (income) is more sensitive to interest rate changes. However, their market risk (value/price) may be less volatile than fixed-rate securities because their value will usually remain near par as a result of interest rates being periodically reset to maintain a current market yield.

Zero Coupon Bonds and Preferred Stocks include securities whose structure differs from the basic convertible security structure. These include PENs (Participating Equity Notes), PERCs (Preferred Equity Redemption Coupons) and DECS (Dividend Enhanced Common Stock). PENs are corporate bonds offering the investor a choice at maturity of receiving the greater of the bond's par value or the value of a preset ratio of an established index. PERCs reflect an investor's acceptance of a cap in a security's price appreciation in exchange for a higher income yield. DECS are issued, and traded, at a premium to the underlying common stock in exchange for a higher dividend yield. The State's investment policy requires convertible debt and zero coupon bonds to be rated at a specific level at time of purchase as a credit risk control measure. These securities carry market risk and the potential for change in market value. Market value changes may occur due to interest rate changes, declines in the value of underlying common stock, or the triggering of a call feature and other factors.

Mortgage-backed securities reflect participation in a pool of residential mortgages. These securities include structured financial instruments known as REMICs (Real Estate Mortgage Investment Conduits). Some REMICs are principal-only strips (POS) and interest-only strips (IOS). These securities are based on the cash flows from the principal and interest payments on underlying mortgages, respectively. These securities have credit risk as measured by major credit rating services. The State's investment policy requires these investments to be rated "investment grade" at the time of purchase. Market risk for these securities is caused by changes in the price or principal value of the securities due to changes in interest rates.

There are no legal risks that the State is aware of regarding any investments, except an investment in the El Paso Electric Company. El Paso Electric Company declared bankruptcy in January 1992. Per bankruptcy court order, the company has been making its monthly interest payments since January 1992. In 1995, the company began merger negotiations with another company. In June 1995, negotiations ceased and bond holders were notified the June interest payment and subsequent interest payments would not be paid until further notice. On September 8, 1995, the Board of Investments received an interest payment on those bonds for June 1 to August 31, 1995. The Retirement Funds Bond Pool (RFBP) and the All Other Funds (AOF) portfolio administered by the Board of Investments had investments with a book value of $2,107,000 and $1,402,000, respectively, in El Paso Electric Company bonds.

(3) Under a security lending agreement with the State's agent, all of the State's investments may be loaned. The agent must maintain collateral equal to 102% of the market value of the securities on loan. The State retains all rights and risks of ownership for the loaned securities.

B. Cash/Cash Equivalents

(1) Cash Deposits - The State's main depository bank balance fluctuates daily. The State requires collateralization based on an average daily bank balance. For other depository banks, State statutes require collateralization at 50% of the bank balance. The Cash Deposit amounts include both Primary Government and Component Unit deposits.

TABLE 1 - CASH DEPOSITS (In Thousands)

Risk Category		Carrying Amount	Bank Balance	Fund
(1)	Insured (FDIC)	$ 1,703	$ 1,703	Various
	Collateral held by State/State's agent	187,419	20,225	Various
(2)	Collateral held by Pledging Institution	8,650	8,650	Various
(3)	Uncollateralized	897	30	Various
Uncategorized:				
	Cash in U.S. Treasury	105,616		
	Less: Outstanding Warrants	(39,284)		
TOTAL CASH DEPOSITS		$265,001		

As of June 30, 1995, the carrying amount of deposits for component units was $41,495,000 and the bank balance was $41,280,000. Of the bank balance, $41,248,000 was fully insured or collateralized with securities held by the component units or their agent's in the unit's name and $32,000 was collateralized with securities held by the pledging institution's trust department or its agent in the respective component unit's name.

(2) Short-Term Investment Pool (STIP) - STIP consists of cash in the State Treasury not invested by individual funds in identifiable securities. Cash is pooled and invested in short-term instruments. Each investing fund, including local governments outside this reporting entity, purchase units in STIP. STIP is under the control of the Board of Investments.

TABLE 2 - SHORT-TERM INVESTMENT POOL (STIP) (In Thousands)

	Risk Categories 1	Risk Categories 2*	Carrying Amount	Market Value	Fund
Asset-Backed Securities	$ 127,259	$ -	$ 127,259	$ 127,255	Various
Bankers' Acceptances	87,426	-	87,426	87,415	Various
Commercial Paper	152,610	-	152,610	152,580	Various
Corporate Obligations	85,139	-	85,139	85,371	Various
Government Securities	73,304	49,061	122,365	122,777	Various
Repurchase Agreements	125,000	-	125,000	125,000	Various
Variable-Rate	152,724	249	152,973	152,953	Various
TOTAL STIP	$ 803,462	$49,310	$ 852,772	$ 853,351	

*At June 30, 1995, these securities with a market value of $49,764,000 were loaned under a security lending agreement with the State's agent.

As of June 30, 1995, local governments invested $204,614,000 in the STIP and component units of the State of Montana had investments in STIP of $136,681,000. STIP participant units are valued at $1 for both cost and market.

(3) Cash Equivalents - Cash equivalents, except for the Housing Authority in the Component Unit Proprietary Fund, are short-term, highly liquid investments with original maturities of three months or less. The Housing Authority considers cash and cash equivalents to be cash held by the state treasurer, other cash deposits, and mortgage payments in transit. Cash equivalents may be under the control of the Board of Investments (the Board) or other agencies, as allowed by law.

TABLE 3 - CASH EQUIVALENTS (In Thousands)

Fund Type	Government Securities	Risk Category 1	Money Market	Other Investments	Carrying Amount	Market Value
PRIMARY GOVERNMENT						
Enterprise	$ -	$ -	$ 1,408	$ -	$ 1,408	$ 1,408
COMPONENT UNITS						
Proprietary	$ 1,673	$ 1,673	$ -	$ -	$ 1,673	$ 1,673
Higher Education	-	-	5,565	6,263	11,828	11,828
Sub-Total	$ 1,673	$ 1,673	$ 5,565	$6,263	$13,501	$13,501
TOTAL	$ 1,673	$ 1,673	$ 6,973	$6,263	$14,909	$14,909

C. **Equity in Pooled Investments** - Consists of investments held by three investment pool funds. The Montana Common Stock Pool (MONTCOMP), Montana Convertible Pool (MTCVP), and Retirement Funds Bond Pool (RFBP) were created to allow qualifying funds to participate in diversified investment pools. Participation is restricted to expendable trust, nonexpendable trust, pension trust and higher education endowment funds. Purchases are subject to statutory restrictions for quality and size of holdings.

TABLE 4 - EQUITY IN POOLED INVESTMENTS (In Thousands)

	Risk Categories 1	Risk Categories 2*	Carrying Amount	Market Value
MONTCOMP				
Corporate Stocks	$ 755,855	$ 63,796	$ 819,651	$ 983,061
MTCVP				
Zero Coupon Bonds	9,487	2,281	11,768	12,270
Convertible Bonds	45,273	3,502	48,775	48,395
Preferred Stocks	16,103	4,467	20,570	19,478
RFBP				
Corporate Asset Backed	95,551	-	95,551	96,257
Corporate Stocks	767,502	57,283	824,785	861,720
US Govt. Mortgage Backed	111,779	-	111,779	116,280
US Govt. Direct	85,713	346,699	432,412	449,671
Yankee Bonds	86,923	10,151	97,074	105,543
TOTAL EQUITY IN POOLED INVESTMENTS	$1,974,186	$488,179	$2,462,365	$2,692,675

* At June 30, 1995, these securities with a market value of $500,082,000 were on loan under a security lending agreement with the State's agent.

As of June 30, 1995, component units of the State of Montana had investments in MONTCOMP, MTCVP, and RFBP pools with a book value of $928,203,000 and a market value of $1,163,597,000.

D. **Investments** - Long-term investments are primarily administered by three state agencies. Article 8 of Montana's Constitution, with supporting statutes, authorizes the Board of Investments to manage the State's unified investment program. State law specifies which agencies may hold investments outside the administration of the Board. The Board, as the State's primary administrator of long-term investments, actively manages 83% of those investments; the Board of Housing, 9%; and the Department of Administration's Personnel Division, 6% for the State's Deferred Compensation Plan. Additionally, the Higher Education Units manage 2% of total investments for bond related activities.

The Board must employ the "Prudent Expert Rule" in managing the State's investment portfolio. The funds carry equity securities at cost and debt securities at amortized cost. Deferred compensation plan investments are carried at market.

The Board of Investments continued to invest in leveraged buyouts and venture capital in fiscal year 1995. The Board's total leveraged buyout commitment, administered by Kohlberg, Kravis, Roberts and Companies, amounts to $50,000,000. The leveraged buyout invested balance for the pension funds amounted to $33,459,164 on June 30, 1995.

For the purpose of portfolio diversification, the Board has committed $27,623,000 for venture capital investments administered by Brinson Partners. The June 30, 1995, venture capital invested balance totaled $7,476,302 for the Teachers' Retirement and $9,137,595 for the Public Employees' Retirement systems.

In September 1991, the board committed $5,000,000 per year for the next five years to invest in mortgage servicing rights. As of June 30, 1995, the invested balance in America's Mortgage Servicing, Inc., totaled $900,000 for the Teachers' Retirement and $1,100,000 for the Public Employees' Retirement systems.

TABLE 5 - INVESTMENTS (CARRYING AMOUNT/MARKET VALUE) (In Thousands)

Fund Type	Carrying Amount	Market Value	Corporate Bonds	Government Securities	Mortgages	Other
PRIMARY GOVERNMENT						
Special Revenue						
Carrying Amount	$ 14,115		$ 3,711	$ 10,404	$ -	$ -
Market Value		$ 14,470	3,750	10,720	-	-
Debt Service						
Carrying Amount	1,671		-	1,671	-	-
Market Value		1,710	-	1,710	-	-
Enterprise						
Carrying Amount	12,661		859	11,598	-	204
Market Value		13,082	871	11,970	-	241
Internal Service						
Carrying Amount	25,120		6,736	17,892	-	492
Market Value		25,807	6,828	18,471	-	508
Expendable Trust						
Carrying Amount	699		-	699	-	-
Market Value		708	-	708	-	-
Nonexpendable Trust						
Carrying Amount	814,688		495,728	260,379	-	58,581
Market Value		850,055	516,430	269,407	-	64,218
Pension Trusts						
Carrying Amount	91,308		-	-	61,330	29,978
Market Value		100,708	-	-	61,330	39,378
Total Identifiable Investments:						
Carrying Amount	$ 960,262		$ 507,034	$ 302,643	$ 61,330	$ 89,255
Market Value		$1,006,540	$ 527,879	$ 312,986	$ 61,330	$104,345
Deferred Compensation	110,586	110,586				
Total Primary Government						
Carrying Amount	$1,070,848					
Market Value		$1,117,126				
COMPONENT UNITS						
Proprietary						
Carrying Amount	$ 584,093		$ 203,108	$ 328,741	$ -	$ 52,244
Market Value		$ 600,822	207,246	338,233	-	55,343
Pension Trust						
Carrying Amount	65,215		-	-	43,120	22,095
Market Value		71,828	-	-	43,120	28,708
Higher Education						
Carrying Amount	31,149			29,712	-	1,437
Market Value		31,028		29,563	-	1,465
Total Component Units						
Carrying Amount	$ 680,457		$ 203,108	$ 358,453	$ 43,120	$ 75,776
Market Value		$ 703,678	$ 207,246	$ 367,796	$ 43,120	$ 85,516
TOTAL INVESTMENTS	$1,751,305	$1,820,804				

TABLE 6 - INVESTMENTS (RISK CATEGORIES) (In Thousands)

Security Type	Categories 1	Categories 2	Carrying Amount	Market Value
PRIMARY GOVERNMENT				
Corporate Bonds	$ 440,705	$ 32,942	$ 473,647	$ 494,558
Corporate Asset-Backed	33,387	-	33,387	33,321
Government Securities	78,601	176,632	255,233	265,242
Government Mortgage-Backed	47,410	-	47,410	47,744
Other	49,083	10,194	59,277	64,967
Total	$ 649,186	$ 219,768	$ 868,954	$ 905,832

Security Type	Categories 1	Categories 2	Carrying Amount	Market Value
COMPONENT UNITS				
Corporate Bonds	$ 149,894	$ 7,390	$ 157,284	$ 161,734
Corporate Asset-Backed	45,824	-	45,824	45,512
Government Securities	83,342	239,770	323,112	332,146
Government Mortgage-Backed	35,341	-	35,341	35,650
Other	9,416	42,828	52,244	55,343
Total	323,817	289,988	613,805	630,385
TOTAL	$ 973,003	$ 509,756	$1,482,759	$1,536,217
Direct Investments:				
PRIMARY GOVERNMENT				
Mortgages			$ 61,330	$ 61,330
Other			29,978	39,378
Deferred Compensation			110,586	110,586
TOTAL			$ 201,894	$ 211,294
COMPONENT UNITS				
Mortgages			$ 43,120	$ 43,120
Other			23,532	30,173
Total			$ 66,652	$ 73,293
TOTAL INVESTMENTS			$1,751,305	$1,820,804

At June 30, 1995, the Board of Investments had securities in Risk Category 2 with a market value of $365,272,000 on loan under a security lending agreement with the State's agent.

5. FIXED ASSETS

Fixed asset valuation is based on actual or estimated historical cost or, in the case of donations, fair market value on the date donated. Infrastructure fixed assets are generally not capitalized by the Primary Government or its component units. Interest incurred during construction is not capitalized for general fixed assets or fixed asset of the higher education units.

Fixed assets are not depreciated in the General Fixed Assets Account Group. When purchased, such assets are recorded as expenditures in the appropriate Governmental Fund. Fixed assets in Proprietary, Nonexpendable Trust and Pension Trust Funds are accounted for within their respective funds. Expendable Trust Funds do not show fixed assets within their funds because they are purchased by other funds. Fixed assets are depreciated on a straight-line basis with estimated useful lives of 30 to 50 years for buildings, 20 years for improvements and 4 to 12 years for equipment. Fixed assets and intangible assets for Higher Education Units are accounted for in the Investment in Plant Fund and are not depreciated.

Intrafund transfers of fixed assets have not been eliminated in the table below.

Changes in fixed asset balances for the fiscal year ended June 30, 1995, are reflected in the following table (in thousands):

	PRIMARY GOVERNMENT			
	Balance July 1, 1994	Additions/ Transfers	Deletions/ Transfers	Balance June 30, 1995
PROPRIETARY FUNDS				
Land	$ 1,036	$ -	$ -	$ 1,036
Buildings/Improvements	4,338	150	1	4,487
Equipment	119,671	14,746	3,670	130,747
Other Fixed Assets	11	238	-	249
Construction in Progress	1,125	3,023	3,700	448
Subtotal/Total	126,181	$ 18,157	$ 7,371	136,967
Accumulated Depreciation	(69,941)			(76,741)
Total	$ 56,240			$ 60,226
NONEXPENDABLE TRUST FUNDS				
Land	$ 49,399	$ -	$ -	$ 49,399

	Balance July 1, 1994	Additions/ Transfers	Deletions/ Transfers	Balance June 30, 1995
PENSION TRUST FUNDS				
Land	$ 25	$ -	$ -	$ 25
Buildings/Improvements	277	-	-	277
Equipment	135	30	60	105
Subtotal/Total	437	$ 30	$ 60	407
Accumulated Depreciation	(203)			(184)
Total	$ 234			$ 223
GENERAL FIXED ASSETS ACCOUNT GROUP				
Land	$ 56,536	$ 2,801	$ 1,511	$ 57,826
Buildings/Improvements	241,266	15,293	5,703	250,856
Equipment	91,061	11,506	10,099	92,468
Other Fixed Assets	44,116	280	40	44,356
Construction in Progress	4,149	5,300	2,192	7,257
Total	$ 437,128	$ 35,180	$ 19,545	$ 452,763

COMPONENT UNITS

PROPRIETARY FUNDS				
Equipment	$ 2,598	$ 1,416	$ 546	$ 3,468
Accumulated Depreciation	(898)			(1,240)
Total	1,700			$ 2,228
PENSION TRUST FUND				
Land	$ 35	$ -	$ -	$ 35
Buildings/Improvements	158	-	-	158
Equipment	159	11	-	170
Subtotal/Total	352	$ 11	$ -	363
Accumulated Depreciation	(171)			(191)
Total	$ 181			$ 172
HIGHER EDUCATION FUNDS				
Land	12,682	$ 25	$ 310	$ 12,397
Buildings/Improvements	293,797	5,173	738	298,232
Equipment	109,490	12,740	3,501	118,729
Other Fixed Assets	67,544	3,355	350	70,549
Construction in Progress	9,376	42,393	190	51,579
Intangible Assets	2,173	192	8	2,357
Total	$ 495,062	$ 63,878	$ 5,097	$ 553,843

6. RETIREMENT SYSTEMS

A. Defined Contribution Plans - Effective January 1, 1988 through June 30, 1993, eligible employees of the Montana University System (MUS) could elect to participate in the Optional Retirement Program (ORP). The ORP is a defined contribution retirement plan governed by Title 19, Chapter 21 of the Montana Code Annotated. The plan is underwritten by the Teachers' Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) and only faculty and staff with contracts under the authority of the Board of Regents may participate. Those faculty and staff members who did not elect the ORP participate in the Teachers' Retirement System, a defined benefit plan discussed in the next section. Beginning July 1, 1993, membership in the ORP is mandatory for eligible employees new to the MUS.

The benefits at retirement depend upon the amount of contributions, amount of investment gains and losses and the employee's life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. Individuals are immediately vested with all contributions. Higher education units record employee/employer contribution expenditures in the affected higher education subfund when remitting contributions to the Commissioner of Higher Education. These moneys are recorded in the Custodial Accounts Agency Fund. The Commissioner's Office then wire transfers the contributions to TIAA-CREF. The MUS is not liable for asset management or for providing benefits after the required contributions have been made to TIAA-CREF. Approximately 1,621 employees are members of the ORP. Employee contributions are 7.044% of salary and employer contributions are 4.956% of salary for a total of 12% of salary contributed to the ORP.

	TIAA-CREF (in thousands)
Covered Payroll	$ 39,424
Total Payroll	176,390
Employer Contributions	$ 1,955
Percent of Covered Payroll	4.959%
Employee Contributions	$ 2,778
Percent of Covered Payroll	7.046%

B. Defined Benefit Plans - The State contributes to and/or administers eight retirement systems and one pension plan in four categories: (1) the State as the single employer; (2) the State as an employer contributor to cost-sharing multiple-employer plans; (3) the State as a nonemployer contributor to cost-sharing multiple employer plans; and (4) the State as a nonemployer contributor.

The number of years required to obtain vested rights varies among the systems. All systems provide early retirement options, death benefits, termination (except VFCA) and disability benefits. All systems (except VFCA) provide post-retirement benefits. Post-retirement benefits for the GWRS, PERS, TRS and SRS are based on investment yield, retirees' total years of service, age and option chosen at the time of retirement. Post-retirement adjustments are made only in years when funding is available and do not increase the unfunded liability of the system. The post-retirement benefits of each of the remaining systems are included in the plan descriptions below.

The funding policies for each system provide for periodic employer and employee contributions (except VFCA) at rates specified by state law; contribution requirements are not actuarially determined. An actuary determines the actuarial implications of the funding requirement in a biennial actuarial valuation. The actuarial method used to determine the implications of the statutory funding level is the entry age normal funding method, with both normal cost and amortization of the unfunded accrued liability determined as a level percentage of payroll. To maintain a fund on an actuarially sound basis, the rate of contributions should fund the normal cost in addition to amortizing the unfunded liability over a period not to exceed 40 years. The Contributions Required (R) by State/Actual (A) Contributions section contains the number of years needed to fund the normal cost and amortize the unfunded liability. Additionally, each system functions uniquely as described below:

(1) State as the Single Employer

HPORS - Highway Patrol Officers' Retirement System - This system, established in 1971 and governed by Title 19, Chapters 2 & 6 of the Montana Code Annotated, provides retirement benefits for all uniformed members of the Montana Highway Patrol, including supervisory personnel. Member and State contributions are 9% and 36.28%, respectively, of total salaries of active highway patrol officers. For members hired on or before July 1, 1985, there is no minimum age, but minimum service is 20 years for benefit eligibility. A member hired after July 1, 1985, must be 50 years old and have 20 years of creditable service for benefit eligibility. The service retirement benefit is based on a formula of 2.5% times the number of years of service times the final average salary. Post-retirement benefits are in the form of minimum benefit supplements which ensure the retiree's benefit is no less than 2% of a probationary highway patrol officer's salary for each year of the retiree's service, with the annual increase not to exceed 5% of the benefit. Members retired prior to July 1, 1991, who are at least age 55 and have been retired a minimum of five years, will also receive a lump sum payment. This lump sum payment is funded by a registration fee of 25 cents per vehicle license. Rights are vested after five years of service.

JRS - Judges' Retirement System - This system, established in 1967 and governed by Title 19, Chapters 2 & 5 of the Montana Code Annotated, provides retirement benefits for all district court judges, justices of the Supreme Court, and the Chief Water Judge. Members contribute 7% of their salary and the State contributes 6% of active judges' salaries, district court fees equal to 34.71% of members' salaries, and 25% of Supreme Court fees. For benefit eligibility, minimum service is 5 years and minimum age is 65. The monthly retirement benefit formula is 3 1/3% times the number of years of service (to a maximum of 15 years) times 1/12 the current annual salary, plus 1.785% of such salary for each year of service after 15 years. JRS retirees receive increases in benefits at the same rate as salary increases are granted to active members through legislative action. Rights are vested after five years of creditable service.

GWRS - Game Wardens' Retirement System - This system, established in 1963 and governed by Title 19, Chapters 2 & 8 of the Montana Code Annotated, provides retirement services for all persons employed as a game warden, including all supervisory personnel. The member contributes 7.9% of salary and the State contributes 7.15% of active game wardens's salaries, plus all collections from fines and forfeited bonds related to fish and game law violations. For benefit eligibility, minimum age is 50 and minimum years of service are 20. A member may retire with ten years of service at age 55. The yearly retirement benefit formula is 2% times the number of years of service times the final average salary. Investment earnings in excess of 8%, if any, are used to provide post-retirement increases. Rights are vested after ten years of service.

(2) State as an Employer Contributor to a Cost-Sharing Multiple-Employer

PERS - Public Employees' Retirement System - This mandatory system, established in 1945 and governed by Title 19, Chapters 2 & 3 of the Montana Code Annotated, provides retirement services to substantially all public employees not covered by another public system. The contribution rate is 6.70% of gross wages for both employees and employers. Benefit eligibility is age 60 with at least 5 years of service; age 65 regardless of service; or 30 years of

service regardless of age. Actuarially reduced benefits may be taken with 25 years of service or at age 50 with at least five years of service. Monthly retirement benefits are determined by taking the greater of: (1) 1/56 times the number of years of service times the final average salary times any early retirement reduction if necessary or (2) a monthly annuity that is the actuarial equivalent of twice the member's accumulated regular contributions. Investment earnings in excess of 8%, if any, are used to provide post-retirement increases based on members' years of service, age and option chosen at the time of retirement. Members' rights are vested after 5 years of service.

TRS - Teachers' Retirement System - This mandatory system, established in 1937 and governed by Title 19, Chapter 20 of the Montana Code Annotated, provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, or unit of the university system. Member and employer contributions are 7.044% and 7.47%, respectively, of gross salaries. Eligibility is met with a minimum of 25 years of service or age 60 with 5 years of creditable service. The formula for annual benefits is 1/60 times creditable service years times the final average compensation. Rights are vested after five years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits.

SRS - Sheriffs' Retirement System - This system, established in 1974 and governed by Title 19, Chapters 2 & 7 of the Montana Code Annotated, covers all sheriffs, as well as all State Department of Justice investigators hired after July 1, 1993. The member contribution is 7% of salary; the employer contribution is 7.67% of salary. Minimum years of service for normal service retirement eligibility are 24 for members employed prior to July 1, 1989. For members employed on or after July 1, 1989, the minimum years of service are 24 and the minimum age is 50. The service retirement benefit is calculated at 2.0834% of the final average salary for each year of creditable service, up to a maximum of 50% of final salary, plus 1.35% of the final average salary for each year of service in excess of 24 years, up to a maximum of 60% of final salary. Reduced benefits for early retirement may be taken with a minimum of 15 years of service and a minimum age of 50. Investment earnings in excess of 8%, if any, are used to provide post-employment increases. Rights are vested after 5 years of service if involuntarily terminated, and after 15 years if termination is voluntary.

(3) State as a Nonemployer Contributor to a Cost-Sharing Multiple-Employer

MPORS - Municipal Police Officers' Retirement System - The system, established in 1975 and governed by Title 19, Chapters 2 & 9 of the Montana Code Annotated, covers all municipal police officers of cities covered by the plan. The member contribution is 7.8% of salary for members employed prior to July 1, 1975; 9% of salary for members employed after June 30, 1975, and prior to July 1, 1979; and 10.5% of salary for members employed after June 30, 1979. City contributions are 14.36% of active police officers' salaries. The State contributes 15.66% of active police officers' salaries. The State's contribution is funded from the premium tax on motor vehicle property and casualty insurance policies. Minimum years of service are 10 for benefit eligibility at age 50, or 20 years of service at any age. The service retirement benefit is 2.5% times the number of years of service times the final average salary. The post-retirement benefit is the amount needed to ensure that the retiree's benefit is no less than 50% of the base salary of a newly confirmed police officer. These post-retirement benefits are paid directly by the insurance premium tax fund and are in addition to the actuarially determined contributions to the system. Rights are vested after ten years of service.

FURS - Firefighters' Unified Retirement System - This system, established in 1981 and governed by Title 19, Chapters 2 & 13 of the Montana Code Annotated, provides retirement benefits for all paid firefighters. The member contribution is 6% of base compensation, and city contributions are 13.02% of total annual compensation. The State contribution is 23.27% of total annual compensation for all firefighters and is paid out of the insurance premium tax fund. Minimum age is 50 and minimum service is 10 years for benefit eligibility. For members hired prior to July 1, 1981, with at least 20 years of service, the monthly service retirement benefit is equal to 1/2 of the final monthly compensation received plus an additional 1% for each year in excess of 20 years, up to a maximum retirement benefit of 60% of final monthly compensation. Members hired on or after July 1, 1981 receive a service retirement benefit equal to 2% of final average salary for each year of service up to a maximum of 30 years. Post-retirement benefits require that each retiree receive at least 50% of the salary paid a newly confirmed active firefighter. The cost of this adjustment for members retired prior to July 1, 1973 and for members hired on or after July 1, 1981 is paid from the fire insurance premium tax fund, provided funds are available. Rights are vested after ten years of service.

(4) State as a Nonemployer Contributor

VFCA - Volunteer Firefighters' Compensation Act - This compensation program, established in 1965 and governed by Title 19, Chapter 17 of the Montana Code Annotated, provides medical benefits and pension, disability and death benefits for all volunteer firefighters who are members of eligible volunteer fire companies in unincorporated areas of the state. The State contribution is 5% of fire insurance premium taxes collected. This retirement system is required by law to be fully funded and cannot pay benefits unless money is available. Rights are vested after 10 years of qualified service.

C. Actuarial Data

Actuarial valuations are performed every two years. Hendrickson, Miller & Associates Inc., Helena, MT, prepared the actuary reports for the retirement systems, excluding TRS. Milliman & Robertson, Inc., of Seattle, WA., performed the actuarial valuation for TRS. With the exception of the VFCA, which discloses information as of June 30, 1993, the following tables disclose various information by retirement system (dollar amounts expressed in thousands) as of June 30, 1995. Although specific total payroll amounts are not available, substantially all of total payroll is covered.

	PRIMARY GOVERNMENT								COMP UNIT
	HPORS	JRS	GWRS	PERS	SRS	MPORS	FURS	VFCA	TRS
Membership									
Receiving Benefits	229	46	74	12,144	118	490	414	672	7,736
Vested Term. Employee	2	1	2	1,308	20	13	6	412	1,130
Non-vested Term. Employee	4	-	1	7,370	98	30	51	1,870	6,201
Vested Active Employees	123	23	45	19,452	347	204	256	2,030	11,353
Non-vested Active Employees	80	21	35	8,012	207	305	158	708	6,709
Total	438	91	157	48,286	790	1,042	885	5,692	33,129
Plan Descriptions									
Total Covered Payroll	$ 5,410	$ 2,371	$ 2,343	$602,215	$15,926	$14,288	$12,790	N/A	$466,310
State Covered Payroll	$ 5,410	$ 2,371	$ 2,343	$313,424	720	N/A	N/A	N/A	$ 65,833

	PRIMARY GOVERNMENT				
	HPORS	JRS	GWRS	PERS	SRS
Funding Status & Progress					
Last Actuarial Valuation	7/01/94	7/01/94	7/01/94	7/01/94	7/01/94
Actuarial Update	6/30/95	6/30/95	6/30/95	6/30/95	6/30/95
Return on Investments	8.0%	8.0%	8.0%	8.0%	8.0%
Projected Salary Increases:					
Inflation	6.0%	6.0%	6.0%	6.25%	6.0%
Merit	NONE	NONE	NONE	NONE	NONE
Changes In Post-retirement	6.0%	6.0%	NONE	NONE	NONE
PBO (1):					
Retirees,beneficiaries (2)	$41,078	$18,276	$10,101	$ 754,751	$11,795
Current Employees (3)	6,008	1,321	2,863	394,366	12,894
Employer-financed vested	15,919	5,245	2,865	424,162	20,888
Employer-financed non-vested	1,063	1,324	365	18,141	1,966
Total PBO	$64,068	$26,166	$16,194	$1,591,420	$47,543
Net Assets Available for Benefits at Cost*	$38,928	$20,401	$14,950	$1,276,856	$55,527
Unfunded PBO	$25,140	$ 5,765	$ 1,244	$ 314,564	
Assets in Excess of PBO					$ 7,984
*At Market Value	$43,599	$22,895	$17,197	$1,483,182	$61,311

	MPORS	FURS	VFCA	TOTAL PRIM GOVT	COMP UNIT TRS
Funding Status & Progress					
Last Actuarial Valuation	7/01/94	7/01/94	7/01/93		7/01/94
Acturial Update	6/30/95	6/30/95	N/A		6/30/95
Return on Investments	8.0%	8.0%	8.0%		8.0%
Projected Salary Increases:					
Inflation	6.0%	6.0%	(4)		6.0%
Merit	NONE	NONE	(4)		.5%
Changes In Post-retirement	NONE	6.0%	NONE		NONE
PBO (1):					
Retirees,beneficiaries (2)	$53,796	$ 54,993	$ 9,120	$ 953,910	$ 830,372
Current Employees (3)	11,766	12,030	8,435	449,683	493,519
Employer-financed vested	24,755	54,504	N/A	548,338	341,932
Employer-financed non-vested	5,763	4,552	N/A	33,174	15,470
Total PBO	$96,080	$126,079	$17,555	$1,985,105	$1,681,293
Net Assets Available for Benefits at Cost*	$57,610	$ 56,473	$ 9,970	$1,530,715	$1,067,110
Unfunded PBO	$38,470	$ 69,606	$ 7,585	$ 454,390	$ 614,183
Assets in Excess of PBO				$ 7,984	
*At Market Value	$62,955	$ 60,913	$10,522	$1,764,829	$1,309,100

Contributions Required (R) by Statute/Actual (A) Contributions (5) (Statute Req. is Actuarially Determined)

	PRIMARY GOVERNMENT								COMP UNIT
	HPORS	JRS	GWRS	PERS	SRS	MPORS	FURS	VFCA	TRS
Total Contributions	$ 2,961	$ 950	$ 545	$80,653	$2,598	$ 6,383	$ 5,605 (4)	$ 766	$76,855
Normal Cost	1,397	935	359	61,486	2,196	3,222	2,434	401	44,271
% Of Covered Payroll	25.82%	39.43%	15.32%	10.21%	13.79%	22.55%	19.03%	N/A	9.49%
Amort Unfunded Liab	1,564	15	186	19,167	402	3,161	3,171	404	32,584
% of Covered Payroll	28.91%	.62%	7.94%	3.18%	2.52%	22.12%	24.79%	N/A	6.99%
Years Req. to Fund Normal Cost & Amortize Unfunded Liab.	26.35	8.59	.43	16.12	-	16.65	25.46	(4)	31.7
Employer Contributions (A)	$ 1,521	$ 166	$ 186	$39,109	$1,289	$ 2,527	$ 1,715	-	$39,073
% of Covered Payroll (A)	28.12%	6.98%	7.93%	6.49%	8.10%	17.69%	13.41%	-	8.379%
% of Covered Payroll (R)	36.28%	6.0%	7.15%	6.70%	7.67%	14.36%	13.02%	-	7.470%
State Contributions (A)	$ 1,521	$ 166	$ 170	$20,999	55	-	-	-	$ 5,562
% of Employer Cont. (A)	100%	100%	100%	53.7%	4.3%	-	-	-	14.2%
Employee Contributions (A)	$ 573	$ 193	$ 204	$41,344	$1,310	$ 1,589	$ 805	-	$ 37,782
% of Covered Payroll (A)	10.59%	8.15%	8.71%	6.87%	8.22%	11.12%	6.29%	-	8.102%
% of Covered Payroll (R)	9.0%	7.0%	7.9%	6.70%	7.0%	(6)	6.0%	-	7.044%
Other Contributions (A)	$ 867	$ 591	$ 156	$ 200	$ -	$ 2,266	$ 3,084	$ 766	-
% of Covered Payroll (A)	16.02%	24.92%	6.67%	.03%	-	15.86%	24.12%	N/A	-
% of Covered Payroll (R)	(7)	(8)	(9)	-	-	(10)	(11)	N/A	-

(1) The amounts shown as the PBO ("Pension Benefit Obligation") are standardized disclosure measures of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the system on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the systems. The significant actuarial assumptions used in the annual evaluations are the assumptions used in the PBO determination.

(2) Retirees, beneficiaries receiving benefits and terminated employees not yet receiving benefits.

(3) Current employees - accumulated employee contributions including allocated investment earnings.

(4) This retirement plan is required to be fully funded and cannot pay benefits unless money is available. Contributions were not sufficient to fund future benefits and amortize the existing unfunded liability over a period of 30 years.

(5) Actual percentages exceed required percentages (unless otherwise footnoted) because contributions include amounts for buybacks.

(6) For members employed before July 1, 1975, contributions are 7.8% of salary; for members employed on or after July 1, 1975, and prior to July 1, 1979, contributions are 9% of salary; for members employed on or after July 1, 1979, contributions are 10.5% of salary.

(7) Other contributions include fees from drivers' licenses and vehicle registrations.

(8) Other contributions consist of District Court Fees equal to 34.71% of covered payroll and 25% of Supreme Court Fees. However, during the year ended June 30, 1995, actual contributions did not cover the year's normal cost.

(9) Other contributions include all collections from fines and forfeited bonds related to fish and game law violations.

(10) The $2,266,000 contribution by the State equals 15.66% of active policemen's salaries and is contributed from a premium tax on motor vehicle property and casualty insurance policies. A $1,860,000 supplemental amount for post-retirement benefits for members with a minimum of 20 years of service at retirement is not included. The State's contribution is 47.3% of total Employer and Other contributions.

(11) The $3,084,000 contribution by the State equals 23.27% of total firefighters' compensation and is contributed from a premium tax on insurance risks. A $1,093,000 supplemental amount for post-retirement benefits for retired members is not included. The State's contribution is 64.3% of total Employer and Other contributions.

D. Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Trend information is available starting in fiscal year 1988 for HPORS, JRS, GWRS, PERS, TRS, MPORS, FURS, and SRS and can be found in the annual reports of these retirement systems.

REQUIRED SUPPLEMENTARY INFORMATION
Analysis of Funding Progress

		PRIMARY GOVERNMENT							COMP UNIT
		HPORS	JRS	GWRS	PERS	SRS	MPORS	FURS	TRS
Net Assets Available for Benefits Expressed as a % of PBO (Percentage Funded)	1993...	57.0%	75.6%	88.2%	78.8%	128.2%	56.3%	43.8%	59.5%
	1994...	58.6%	80.2%	91.1%	81.4%	123.5%	58.6%	45.1%	63.0%
	1995...	60.8%	78.0%	92.3%	80.2%	116.8%	60.0%	44.8%	63.5%
Unfunded PBO, Expressed as a % of Annual Covered Payroll	1993...	461.4%	208.5%	69.4%	53.1%	70.6%*	293.1%	518.1%	141.2%
	1994...	460.5%	171.6%	56.7%	47.8%	61.0%*	275.1%	505.5%	131.0%
	1995...	464.7%	243.1%	53.1%	52.2%	50.1%*	269.2%	544.2%	131.7%
*Assets in Excess of PBO, Expressed as a % of Annual covered Payroll									
Employer Contributions Expressed as a % of Annual Covered Payroll	1993...	27.58%	6.00%	7.15%	6.70%	7.67%	14.36%	13.02%	8.55%
	1994...	27.43%	5.98%	7.78%	6.70%	7.57%	14.31%	13.00%	8.89%
	1995...	28.12%	6.98%	7.88%	6.49%	8.09%	17.69%	13.41%	8.38%

7. OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, Retirement Systems, the following postemployment benefits are provided:

The State provides 18 to 36 months optional postemployment health care benefits in accordance with Public Law 99-272, known as the Federal Consolidated Omnibus Reconciliation Act (COBRA) to the following employees and dependents who elect to continue and pay administratively established premiums: (1) employees who are receiving employee health care benefits at the time they discontinue State employment and (2) dependents who lose dependent eligibility. At June 30, 1995, 133 individuals were receiving these benefits.

In accordance with section 2-18-704, MCA, the State also provides optional postemployment health care benefits to the following employees and dependents who elect to continue coverage and pay administratively established premiums: (1) employees who retire under applicable retirement provisions and (2) surviving dependents of deceased employees. Retirement eligibility criteria differ by retirement system (See Note 6). Administratively established premiums vary between $107 and $279 per month depending on the medical plan selected, family coverage and Medicare eligibility. The State acts as secondary payor for Medicare-eligible claimants. As of June 30, 1995, 2,736 retirees were receiving health care benefits.

The State reimburses all validated medical claims less member obligations (annual deductibles and co-payments of the members' selected medical plan). Dental claims are reimbursed at 50% to 100% depending on the services provided. The State funds claims on a pay-as-you-go basis. During the fiscal year, expenditures of $9,267,567 were recognized for postemployment health care benefits. Of this amount, $7,294,883 was covered by former employees' premium contributions leaving $1,972,684 of claims in excess of premium revenue that was paid by the State.

In accordance with 2-18-702, MCA, the Montana University System (MUS) provides postretirement health insurance benefits to eligible employees who receive a retirement benefit from the Teachers' Retirement System (TRS), Public Employees' Retirement System (PERS), or an annuity under the Optional Retirement Plan (ORP). Spouses, unmarried dependent children, and surviving spouses are also eligible. Administratively established premiums vary between $120 and $338 per month and are revised annually. Medicare eligible plan members are assumed to be Medicare-insured. After an annual $250 deductible, MUS reimburses 80% of the first $3,000 in medical claims and 100% thereafter. The plan automatically reduces claim reimbursements for members eligible for Medicare even if not enrolled in Medicare. As of June 1995, 1,161 retirees are enrolled in the MUS plan. Funding for the retiree health plan is on a pay-as-you-go basis. Based on amounts recorded through June 1995, estimated expenditures of $3,225,523 were recognized for postemployment health care benefits. Of this amount, $2,346,018, was covered by premiums paid by retirees and $879,504 was paid by the MUS.

8. DEFERRED COMPENSATION PLAN

Since 1976, the State of Montana has offered a deferred compensation plan which allows employees to set aside a portion of their salary each payday towards retirement while deferring the State and Federal income taxes until future years. The payroll deferrals are invested with Nationwide Insurance. All employees of the State are eligible to participate. The plan operates under the sanction of both State and Federal laws (Title 19, Chapter 50, MCA, and Section 457 of the Internal Revenue Code). The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts and all income attributable to those amounts, property or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the State (without being restricted to the provisions of benefits under the plan), subject only to the claims of the State's general creditors. In the past, the plan assets have been used for no purpose other than to pay benefits. The State believes it is unlikely it will use the assets to satisfy the claims of general creditors in the future because of the contractual arrangement with Nationwide Insurance and the State's obligation to participants for their account balance. State statute provides that the State and its political subdivisions are not liable for any investment losses incurred by any eligible deferred compensation plan. However, the State does have the duty of care required of an ordinary prudent investor. As of June 30, 1995, the net assets of the plan available for benefits totaled $110.669 million.

The following table provides a summary of the increases and decreases of the Employees Deferred Compensation Agency Fund for the fiscal year ended June 30, 1995, (in thousands):

Fund Assets (at market value), July 1, 1994	$ 99,737
Deferrals of compensation	8,265
Earnings and adjustment to market value	9,537
Payments to eligible participants and beneficiaries	(6,428)
Administrative expenses	(442)
Fund Assets (at market value), June 30, 1995	$110,669

9. RISK MANAGEMENT

There are two Primary Government public entity risk pools and two Component Unit public entity risk pools that are reported within the Enterprise Fund Type: Primary Government pools include Hail Insurance and Subsequent Injury Funds; Component Unit pools include State Compensation Insurance (New Fund) and State Compensation Insurance (Old Fund). Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. There are three Primary Government Other Than Public Entity Risk Pools reported within the Internal Service Fund Type: Group Employees Comprehensive Medical and Dental Plan, Montana University System (MUS) Group Benefits Plan and Property and Casualty Insurance Plans. In all of these funds there are no significant reductions in insurance coverage from the prior year, nor any insurance settlements exceeding insurance coverage. None of these funds have acquisition costs; therefore, no cost is amortized for the period. These funds use the accrual basis of accounting. By statute, these funds cannot invest in common stock. Investments are recorded at amortized cost. Premiums and discounts are amortized using the straight-line method over the life of the securities.

A. Public Entity Risk Pools

(1) Hail Insurance - Any Montana producer engaged in growing crops subject to destruction or damage by hail may participate in the hail insurance program. Approximately 1,989 producers participated in this program in 1995. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs and claims paid for hail damage. Depending upon the actuarial soundness of the reserve fund and the damage in a season, producers may receive a refund. Anticipated investment income is considered in computing a premium deficiency of which there is none.

A claim must be submitted to the State Board of Hail Insurance within fourteen days of a loss occurrence. The claim must indicate whether the grain is stemming, in the boot, heading out, in the milk, in the stiff dough, ready to bind, or combine. If beans, peas or other crops are damaged, the growth-stage must also be indicated. Inspection of a crop will occur as promptly as possible after claim receipt and no later than September 30. The insurance only covers loss or damage to growing grain which exceeds 5% destruction by hail.

The fund recorded a liability of $642,503 based on claims submitted for losses through June 30, 1995. Any crop insurance liability is paid to producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance, reinsurance, or annuity contracts.

(2) Subsequent Injury - This fund provides benefits to workers certified as vocationally handicapped who are injured on the job and entitled to benefits under the Workers' Compensation or Occupational Disease Act at the time of injury. The liability of the insurer for payment of compensation benefits is limited to 104 weeks of benefits actually paid. This fund will reimburse the insurer for all benefits paid after this 104 week time period. In Montana, there are 1,827 individuals certified as vocationally handicapped.

Workers' compensation insurance premium experience modification factors are influenced by the 2 year limitation and employers may experience an insurance premium reduction. Therefore, this fund provides employers with a potential incentive for hiring the certified vocationally handicapped.

This fund makes no provision for insured events of the current year. All Montana insurers are annually assessed an amount of up to 5% of each insurer's compensation payments for the previous fiscal year. An estimated liability is recorded based on a projected cost (case-by-case) analysis of each injured, certified, vocationally handicapped worker. As of June 30, 1995 the amount of this liability is estimated to be $1,039,000.

(3) **State Compensation Insurance (New Fund)** - Liability coverage to employers for injured employees who are insured under the Workers' Compensation and Occupational Disease Acts of Montana and workers' compensation claims occurring on or after July 1, 1990, are reported in the New Fund. The New Fund must insure any employer who desires coverage. At fiscal year-end, approximately 25,607 employers were insured with the New Fund. Montana state governmental agencies must obtain their workers' compensation coverage through the New Fund. Anticipated investment income is considered for computing a premium deficiency and employers must pay premiums to the New Fund within specified time frames.

An actuarial study prepared by Tillinghast, a Towers Perrin company, as of June 30, 1995, has estimated liabilities and the ultimate cost of settling claims that have been reported but not settled and claims that have been incurred but not reported. Because actual claim costs depend on such complex factors as inflation and changes in the law, claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. At June 30, 1995, $541,373,699 of unpaid claims and claim adjustment expenses are presented at their net present value of $395,837,222. These claims are discounted at an annual rate of 5.75% (See Note 14).

The New Fund uses reinsurance agreements to reduce its exposure to large losses. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the fund as direct insurer. The New Fund did not deduct any claim liabilities related to potential reinsurance recoverable. When the New Fund purchases annuity contracts, the claim is settled in full and on a final basis; all liability of the New Fund is terminated.

Statute requires the New Fund set premiums at least annually at a level sufficient to ensure adequate funding of the insurance program during the period the rates will be in effect.

(4) **State Compensation Insurance (Old Fund)** - The liability and payment of workers' compensation claims for incidents occurring before July 1, 1990, are reported in the Old Fund. Funding for claim payments is provided by old fund liability taxes (OFLT) imposed on employers' payroll (0.5%), employees' wages (0.2%) and sole proprietors and subchapter S shareholders' distributive income (0.2%). The OFLT will provide funding for old fund claims and bond payments (see Note 12 G(3)). An actuarial study prepared by Tillinghast, a Towers Perrin company, as of June 30, 1995, was used to estimate liabilities and the ultimate cost of settling claims that have been reported but not settled and claims that have been incurred but not reported. At June 30, 1995, $295,748,844 of unpaid claims and claim adjustment expenses are presented at face value. This fund generates little interest earnings, does not discount estimated claims liabilities, and does not compute a premium deficiency (See Note 14).

(5) **Changes in Claims Liabilities For the Past Two Years** - As indicated above, these funds establish liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following tables present changes (in thousands) in those aggregate liabilities during the past two years. All information in these tables is presented at face value and has not been discounted.

Primary Government	HAIL INSURANCE		SUBSEQUENT INJURY	
	1995	1994	1995	1994
Unpaid claims and claim adjustment expenses at beginning of year	$ 708	$ 495	$ 968	$1,061
Incurred claims and claim adjustment expenses:				
Provision for insured events of the current year	1,023	2,226	-	-
Increase (Decrease) in provision for insured events of prior years	(350)	(33)	165	103
Total incurred claims and claim adjustment expenses	673	2,193	165	103
Payments:				
Claims and claim adjustment expenses attributable to insured events of the current year	(380)	(1,518)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	(358)	(462)	(94)	(196)
Total payment	(738)	(1,980)	(94)	(196)
Total unpaid claims and claim adjust. exp. at end of the year	$ 643	$ 708	$1,039	$ 968

Component Units	STATE COMPENSATION INSURANCE (NEW FUND)		STATE COMPENSATION INSURANCE (OLD FUND)	
	1995	1994	1995	1994
Unpaid claims and claim adjustment expenses at beginning of year	$509,020	$404,706	$339,485	$365,249
Incurred claims and claim adjustment expenses:				
Provision for insured events of the current year	173,327	184,039	-	-
Increase (Decrease) in provision for insured events of prior years	(63,249)	(3,952)	(3,795)	2,975
Total incurred claims and claim adjustment expenses	110,078	180,087	(3,795)	2,975
Payments:				
Claims and claim adjustment expenses attributable to insured events of the current year	(18,137)	(18,693)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	(59,587)	(57,080)	(39,941)	(28,739)
Total payment	(77,724)	(75,773)	(39,941)	(28,739)
Total unpaid claims and claim adjust. exp. at end of the year	$541,374	$509,020	$295,749	$339,485

(6) Risk Management Trend Information

The following table only presents risk management trend information for the State Compensation Insurance (New Fund). Only the New Fund has a three to five year development cycle contemplated by GASB Statement 10. The State Compensation Insurance (Old Fund) does not charge a premium for its services; its funding source is the old fund liability tax. The Hail Insurance Fund pays claims within a calendar year cycle that parallels the growing season from spring planting to fall harvesting; therefore, it has no three to five year development cycle. State statute limits the payment of claims and the collection of premiums (and penalties) for the Subsequent Injury Fund from any developmental cycle.

The table below illustrates how the earned revenues (net of reinsurance) of the New Fund and its investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the fund as of the end of the fiscal year (in thousands). Section 3 shows the fund's incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year). Section 4 shows the cumulative amounts paid as of the end of successive years for each policy year. Section 5 shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. Section 6 compares the latest reestimated incurred claims amount to the amount originally established (Section 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. This table will be expanded and revised as data for successive policy years develops.

	STATE COMPENSATION INSURANCE (NEW FUND)				
	1991	1992	1993	1994	1995
1. Net earned required contribution and investment revenues	$ 113,734	$144,035	$181,715	$191,794	$156,782
2. Unallocated expenses including overhead	6,048	8,232	9,325	9,090	11,303
3. Estimated incurred claims and expenses, end of policy year	137,237	183,425	186,480	199,890	164,824
4. Paid (cumulative) as of:					
End of policy year	17,618	20,244	18,347	18,693	18,137
One year later	44,335	50,576	46,343	45,947	
Two years later	64,079	68,837	62,717		
Three years later	74,901	77,950			
Four years later	81,747				

	1991	1992	1993	1994	1995
5. Reestimated incurred claims and expense:					
End of policy year	137,237	183,425	186,480	199,890	164,824
One year later	166,980	184,968	184,030	176,979	
Two years later	160,272	175,218	161,045		
Three years later	151,554	156,660			
Four years later	138,180				
6. Increase (decrease) in estimated incurred claims and expense from end of policy year	943	(26,765)	(25,435)	(22,911)	

B. Other Than Public Entity Risk Pools

(1) Group Employee Comprehensive Medical and Dental Plan - This plan is fully self-insured, with the State assuming all the risk for claims incurred by employees of the State, elected officials, retirees and their dependents. There is no third party coverage. Premiums are collected through payroll deductions, deductions through the Public Employees' Retirement System and self-payment and are recorded as revenue in the Employees' Group Benefits Internal Service Fund. At June 30, 1995, estimates for claims liabilities, which include incurred but not reported claims, are $6,759,693 and are based on a formula provided by Martin E. Segal Company, a consulting actuarial firm. A liability is recorded in the accompanying financial statements for these estimated claims.

(2) Montana University System (MUS) Group Benefits Plan - This plan was authorized by the Regents to provide medical, dental, and vision insurance coverage to employees of the Montana University System, the Montana Higher Education Student Assistance Corporation (MHESAC), and the State Bar of Montana, as well as their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured. United of Omaha is the claims administrator on the plan. Managed Care Montana (Blue Cross/Blue Shield of Montana) has a contract for utilization management. The utilization management program consists of hospital pre-authorization, case management and medical necessity review. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance Internal Service Fund. The estimated claims liability is estimated to be $3,200,000 as of June 30, 1995, based on prior year experience. A liability is recorded in the accompanying financial statements for these estimated claims.

(3) Property & Casualty Insurance Plans - This self-insurance plan provides coverage for general liability, automobile liability, automobile physical damage, retail liquor stores inventory and State-administered foreclosure housing units. The State self-insures the $150,000 deductible per occurrence for most property insurance as well as various deductible amounts for other state property. The state also self-insures against losses of equipment below $150,000 of value, with state agencies paying the first $1,000. Commercial property insurance protects over $1.7 billion of state owned buildings and contents. The state property insurance includes earthquake and flood protection to $100 million annually with deductibles of $1 million for earthquake and $500,000 for flood per occurrence. Premiums are collected from all State agencies including Component Units and recorded as revenue in the Administration Insurance Internal Service Fund.

A biennial actuarial study, prepared by Tillinghast, a Towers Perrin Company, and issued for the accident period 7/1/88 through 6/30/94, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. The June 30, 1995, estimated claims liability of $19,329,016, discounted at 15%, includes those claims incurred but not reported and is recorded in the accompanying financial statements.

(4) Changes in Claims Liabilities For the Past Two Years - These funds establish liabilities for both reported and incurred but not reported claims. The following table presents changes in the balances of claims liabilities during the past two fiscal years (in thousands):

	Group Employees Medicial & Dental		MUS Group Benefits		Prop. & Casualty Insurance	
	1995	1994	1995	1994	1995	1994
Amount of claims liabilities at the beginning of each fiscal year	$ 6,117	$ 5,993	$ 3,200	$ 3,200	$17,421	$15,431
Incurred claims:						
Provision for insured events of the current year	35,306	29,363	16,983	13,558	6,584	5,985
Increases (Decreases) in provision for insured events of prior years	643	124	-	-	(498)	(813)
Total incurred claims	35,949	29,487	16,983	13,558	6,086	5,172
Payments:						
Claims attributable to insured events of the current year	(35,306)	(29,363)	(16,983)	(13,558)	(1,146)	(889)
Claims attritutable to insured events of prior years	-	-	-	-	(3,032)	(2,293)
Total Payments	(35,306)	(29,363)	(16,983)	(13,558)	(4,178)	(3,182)
Total claims liability at end of each fiscal year	$ 6,760	$ 6,117	$ 3,200	$ 3,200	$19,329	$17,421

10. COMMITMENTS

A. Highway Construction - At June 30, 1995, the Department of Transportation had contractual commitments of approximately $124.9 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matching state special revenue funds.

B. Capital Construction - At June 30, 1995, the Department of Administration, Architecture & Engineering Division, had commitments of approximately $29.6 million for capital projects construction. The Primary Government will fund $23.8 million of these projects with the remaining $5.8 million coming from higher education funds.

C. Proprietary Fund Commitments - Fixed budgets are legally adopted in the Enterprise and Internal Service Funds, excluding depreciation, compensated absences and bad debt expense. Appropriations may be committed for goods/services that are not received as of fiscal year-end. These executory commitments are included in unreserved retained earnings in the accompanying financial statements as follows (in thousands):

PRIMARY GOVERNMENT

Enterprise Funds	AMOUNT
Liquor Stores	$ 44
State Lottery	2
Uninsured Employers	4
Sec. of State Business Serv.	34
Historical Society Publications	16
Local Government Audits	30
Subtotal-Enterprise Funds	$ 130
Internal Service Funds	
Highway Equipment	$ 473
ISD	745
Admin. Insurance	34
FWP Equipment	95
Admin. Property & Supply	93
Publications & Graphics	50
Buildings & Grounds	25
Labor Central Services	4
Commerce Central Services	49
DHES Indirect Cost Pool	13
FWP Warehouse Inventory	6
Aircraft Operation	21
Investment Division	26
Records Management	9
Subtotal-Internal Service Funds	$ 1,643
Total-Primary Government	$ 1,773
COMPONENT UNITS	
Housing Authority	$ 22
State Compensation Insurance (New Fund)	1,818
Subtotal-Component Units	$ 1,840
Total- Proprietary Fund Types-Reporting Entity	$ 3,613

11. LEASES/INSTALLMENT PURCHASES PAYABLE

The State has entered into various capital and operating leases for land, buildings, equipment and computer software. Lease contracts are required by law to contain a clause indicating continuation of the lease is subject to funding by the Legislature. It is expected that in the normal course of operations most of these leases will be replaced by similar leases.

A. Capital Leases/Installment Purchases - Changes in capitalized leases/installment purchases follow (in thousands):

Primary Government	Balance July 1, 1994	Additions (Deductions)	Balance June 30, 1995
General Long-Term Obligations	$ 1,527	$ (279)*	$ 1,248
Proprietary Fund Types			
Enterprise Fund	$ 113	$ (57)	$ 56
Internal Service Fund	2,170	(1,114)	1,056
Total Proprietary	$ 2,283	$ (1,171)	$ 1,112
Total-Primary Government	$ 3,810	$ 1,450)	$ 2,360
Component Units			
Pension Trust Fund	$ 105	$ (18)	$ 87
Higher Education Funds	$ 3,088	$ (841)	$ 2,247
Total-Component Units	$ 3,193	$ (859)	$ 2,334
Total Capitalized Leases/ Installment Purchases	$ 7,003	$(2,309)	$ 4,694

*This amount consists of $642,000 of additions as inceptions; $5,000 of additions as adjustments; and $926,000 as deductions.

Future minimum lease payments under capital leases/installment purchases are as follows (in thousands):

Fiscal Year Ending June 30	Primary Government: General Long-Term Obligations	Primary Government: Proprietary Fund Types: Enterprise	Primary Government: Proprietary Fund Types: Internal Service	Component Units: Pension Trust	Component Units: Higher Education Funds	Totals
1996	$ 693	$ 59	$ 588	$ 61	$1,426	$ 2,827
1997	343	-	363	33	525	1,264
1998	158	-	165	-	332	655
1999	109	-	12	-	106	227
2000	71	-	-	-	25	96
After 2000	-	-	-	-	-	-
Total minimum payments	$ 1,374	$ 59	$ 1,128	$ 94	$2,414	$ 5,069
Less: Interest	(126)	(3)	(72)	(7)	(167)	(375)
Present value of minimum payments	$ 1,248	$ 56	$ 1,056	$ 87	$2,247	$ 4,694

B. Operating Leases - Total rental payments for operating leases in fiscal year 1995 were $6,553,000. Future rental payments for operating leases are as follows (in thousands):

Fiscal Year Ending June 30	Amount
1996	$ 5,558
1997	4,380
1998	3,164
1999	2,520
2000	1,527
After 2000	3,786
Total future rental payments	$20,935

12. STATE DEBT

A. General Information - The State has no constitutional limit on its power to issue obligations or incur debt other than a provision that no debt may be created to cover deficits incurred because appropriations exceeded anticipated revenues. The Board of Examiners (consisting of the Governor, Secretary of State and Attorney General) is authorized, pursuant to various enabling acts, to issue bonds and notes of the State.

B. Short-Term Debt - The Board of Examiners, upon recommendation of the Department of Administration, may issue notes in anticipation of the receipt of taxes and revenues. No notes may be issued to refund outstanding notes. The notes must be redeemed by the end of the fiscal year in which issued.

The Board of Investments (BOI) of the State of Montana is authorized to issue Municipal Finance Consolidation Act Bonds which may not aggregate more than $50 million. The purpose of the bonds is to provide funds for the BOI to make loans to eligible local government units. The bonds are not in any way a debt or liability of the State of Montana. The bonds are limited obligations of the BOI payable solely from repayments of principal and interest on loans made by the BOI to participating local government units, investment income under the indenture and an irrevocable pledge by the BOI. The BOI has no taxing power. Bondholders may elect to have their bonds purchased by the Trustee on March 1 of each year until maturity. These issues are considered to be demand bonds and have been reclassified as short-term debt. The amounts issued and outstanding at June 30, 1995, are as follows (in thousands):

Series	Amount Issued	Balance June 30, 1995
1988	$ 5,000	$ 910
1991	5,000	4,890
1992	6,500	6,365
1994	7,500	7,415
TOTAL		$19,580

C. Long-Term Debt - The full faith, credit and taxing powers of the State are pledged for the payment of all general obligation debt. Revenue bonds and mortgage bonds are secured by a pledge from the facilities to which they relate and by certain other revenues, fees and assets of the State and the various colleges and universities. Long-term debt (excluding bonds/notes of Enterprise Funds and Internal Service Funds discussed elsewhere in this footnote; Leases - Note 11 and Compensated Absences - Note 1) of the State at June 30, 1995, is as follows (in thousands):

General Obligation Debt	Series	Amount Issued	Interest Range (%)	Principal Payments FY 1996	Principal Payments In Year of Maturity (11)	Balance June 30, 1995
Highway Bldg Complex	1976	$ 7,400	5.0	$ 600	$ 600 (1996)	$ 600
Long-Range Bldg Program	1985A	8,550	7.2-8.0	375	150 (2001)	1,025
Water Development Program (1)	1988	500	9.4	15	50 (2009)	420
Water Development Program (1)	1989B	500	8.55	15	50 (2010)	440
Water Development Program (1)	1991A	750	8.0-8.5	30	90 (2007)	670
Wastewater Treatment Works	1991B	2,595	5.0-6.8	75	215 (2014)	2,460
GO Refunding	1992	31,330	4.0-7.0	10,885	390 (2010)	19,160
Energy Conservation Program (2)	1993A	1,500	2.5-4.75	130	180 (2004)	1,375
Long-Range Bldg Program	1993B	3,185	2.5-4.25	345	310 (2004)	2,845
Renewable Resource Development(1)	1993C	750	3.5-5.65	60	95 (2004)	690
Long-Range Bldg Program	1994A	22,540	4.2-6.0	720	1,725 (2014)	21,810
Wastewater Treatment Works	1994B	2,200	4.2-6.1	-	180 (2016)	2,200
Long-Range Bldg Program	1994C	21,955	5.125-7.0	650	1,790 (2015)	21,955
Energy Conservation Program (2)	1994D	1,600	4.9-7.0	125	200 (2005)	1,600
Renewable Resource Development (1)	1994E	750	7.7-8.5	55	105 (2005)	750
Total General Obligation Debt		$106,105		$14,080		$ 78,000

Special Revenue Bonds	Series	Amount Issued	Interest Range (%)	Principal Payments FY 1996	Principal Payments In Year of Maturity (11)	Balance June 30, 1995
Department of Transportation	1987	$ 37,955	5.5-6.25	$ 8,720	$9,795 (1998)	$ 27,750
Water Conservation (3)	-	535	3.463-5.0	13	3 (2016)	312
Water Dev. Program (4)	1987C	1,215	6.25-7.6	45	120 (2008)	990
Water Dev. Program (4)	1988A	1,720	6.75-7.3	60	160 (2009)	1,435
Water Dev. Program (4)	1989A	6,000	6.1-6.9	210	520 (2010)	5,125
Broadwater Power Project (4)(6)	1990A	3,800	9.5	305	505 (2002)	2,795
Water Development Program (4)	1990B	9,625	6.2-7.2	430	955 (2007)	7,645
Broadwater Power Project (4)(5)	1991A	21,735	6.4-6.875	-	2,135 (2018)	21,735
Water Development Program (4)	1992A	11,955	3.0-6.1	735	1,250 (2006)	10,560
Water Development Program (4)	1992B	9,375	2.8-6.0	290	795 (2013)	8,825
Department of Transportation	1993	72,375	2.5-5.2	2,000	3,705 (2005)	69,375
Total Special Revenue Bonds		$176,290		$12,808		$156,547
Middle Creek Dam Project (7)		$ 2,990	8.125	$ 30	1,581 (2032)	$ 3,239
Treasure State Endowment (8)		4,134	5.85	407	808 (2001)	4,134
Natural Resource Damage Lit. Pgm. (9)		7,437		-		7,437
Developmental Center Project (10)		13,100	4.4-6.4	70	1,015 (2019)	13,100
Total Notes Payable		$ 27,661		$ 507		$ 27,910
TOTAL GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP						$262,457

(1) All Water Development Program Bonds and the Renewable Resource Development Bonds are secured additionally by a pledge of and payable from certain coal severance taxes. Series 1988, 1989B, 1991A and 1993C bonds are also secured by a pledge of loan repayments from loans made from the bond proceeds.
(2) Bonds issued for financing the design, construction and installation of energy conservation projects at various State buildings.
(3) Bonds sold to Farmers Home Administration.
(4) Bonds issued by the Department of Natural Resources and Conservation (DNRC) and backed by a pledge of coal severance taxes.
(5) First payment of $795,000 is due in 2003.
(6) Bonds were sold to the Montana Board of Investments.
(7) U.S. Bureau of Reclamation loan to Montana Department of Natural Resources & Conservation. The outstanding balance includes 277,158 of interest owed.
(8) Board of Investments Treasure State Endowment loan from the Coal Tax Trust Fund to the State of Montana Department of Commerce. First payment of $199,563 is due in 1996.
(9) Board of Investments loan to the Department of Justice for the Natural Resource Damage Litigation Program. Interest accrues at .5% over the yield on the most recent issue of United States Government 30 Year Bonds. Loan repayment is secured by a pledge of amounts to be recovered in the ongoing litigation with Atlantic Richfield Company.
(10) Montana Health Facility Authority loan to the Department of Corrections for the Montana Developmental Center Project.
(11) Year of Maturity refers to fiscal year.

Board of Regents Issues Higher Education Units	Series	Amount Issued	Interest Range (%)	Principal Payments FY 1996	Principal Payments In Year of Maturity	Balance June 30, 1995
University of Montana (U of M)	1993A/1995B	$ 53,615	2.3-6.9	$1,690	$ 1,810 (2016)	$ 52,025
Montana State University (MSU)	1985B/1986A/1987A/1993A	52,312	2.6-8.65	1,465	11,265 (2017)	45,572
Montana Tech of the U of M	1986A	6,745	6.6-7.625	185	1,070 (2010)	5,485
MSU - Billings	1994C	9,360	3.3-6.0	595	425 (2007)	8,765
MSU - Northern	1994C	2,890	3.3-6.0	90	100 (2015)	2,820
Western Montana College of the U of M (WMC)	1993A/1995B	1,371	2.2-6.9	70	61 (2016)	1,286
Helena College of Technology of The University of Montana (HCT)	1995B	620	4.6-6.9	30	35 (2009)	620
		$126,913		$4,125		$116,573
Less: Unamortized Discount						(1,203)
Total Higher Education Bonded Debt						$115,370
Higher Ed Nonbonded Debt						
U of M Mortgage Payable		$ 204	Variable	$ 6	$ 5 (2012)	$ 176
MSU Thackeray Note		350	5.0	117	122 (1997)	239
MSU - Billings, P.E. Building Note		285	5.69	49	54 (1998)	154
MSU - Northern, Gas Distribution Note		31	5.6	10	11 (1996)	10
MSU - Northern, INTERCAP Program Note		1,041	Variable	109	50 (2006)	961
MSU - Northern, Note		16	6.2	16	16 (1996)	16
WMC INTERCAP Program Note		60	Variable	7	8 (1999)	60
WMC Mortgage Payable		70	6.5	3	5 (2009)	67
College of Technology, MSU Billings, Note		876	None	106	95 (1999)	397
College of Technology, UM - Missoula, INTERCAP Program Note		96	Variable	18	21 (1999)	79
Total Higher Education Nonbonded Debt		$ 3,029		$ 441		$ 2,159
TOTAL HIGHER EDUCATION FUNDS						$117,529

Debt service requirements (principal and interest) for long-term notes/bonds payable reported in the General Long-Term Obligations Account Group and Higher Education Funds are as follows (in thousands):

Fiscal Year Ending June 30	General Obligation Debt	Special Revenue Bonds	Higher Ed Bonded Debt	Non-Bonded Debt	Total Requirements
1996	$ 17,842	$ 22,649	$ 9,966	$ 545	$ 51,002
1997	9,126	22,757	9,907	452	42,242
1998	5,815	22,858	9,833	325	38,831
1999	6,061	21,333	9,843	274	37,511
2000	5,933	28,303	9,832	164	44,232
2001+	69,663	142,386	140,622	605	353,276
Totals	$114,440	$260,286	$190,003	$ 2,365	$ 567,094

A summary of changes in long-term notes/bonds payable reported in the General Long-Term Obligations Account Group and Higher Education Funds for the fiscal year ending June 30, 1995, is as follows (in thousands):

	Balance July 1, 1994	Issued	Retired	Balance June 30, 1995
General Obligation Debt	$ 66,070	$ 26,505	$ 14,575	$ 78,000
Special Revenue Debt	221,455	13,100	50,098	184,457
Higher Ed Revenue Bonds	111,147	7,556	3,333	115,370
Higher Ed Nonbonded Debt	2,076	471	388	2,159
Totals	$ 400,748	$ 47,632	$ 68,394	$ 379,986

D. Early Bond Redemption

On June 29, 1995, the Montana Department of Transportation deposited $41.015 million with an escrow agent to be invested in federal securities to provide for future debt service payments. The transaction met the requirements of a legal defeasance and $39.665 million of the 1993 Series A Bonds, maturing on July 1, 2003, through July 1, 2005, were removed from the financial statements.

E. Early Retirement Benefits Note

The 1993 Montana State Legislature granted an early retirement incentive. The incentive consisted of an additional three years of employer and employee contributions paid by the employer agency to the State of Montana Public Employees' Retirement System. The payments may be made over a period of time not to exceed eight years at an interest rate of eight percent. Dept Service requirements are as follows (in thousands):

	Principal Payments		
FUND	FY 1996	In Year of Maturity	Balance June 30, 1995
General Long-Term Obligation	$ 48	$ 82	$ 510
Enterprise	5	8	49
Higher Education Units	59	70	212
TOTAL	$ 112	$ 160	$ 771

F. Refunded Bonds

On June 9, 1994, the Housing Authority issued $40,815,000 Single Family Program Bonds, 1994 Series B. A portion of these proceeds were used to optionally redeem, on August 1, 1994, $16,875,000 of the Single Family Program Bonds 1983 Series B, at a premium of 102.5%, and $11,200,000 of the Single Family Program Bonds, 1984 Series A, at a premium of 103%. On April 6, 1995, the Housing Authority issued $33,580,000 Single Family Program Bonds, 1995 Series A. A portion of these proceeds were used to optionally redeem, on June 1, 1995, $5,000,000 of the Single Family Program Bonds 1985 Series B, at a premium of 102%.

As required by Governmental Accounting Standards Board (GASB), Statement Number 23, the Housing Authority deferred 762,234 of costs related to the refundings of the 1994 Series B and the 1995 Series A Bonds. These deferred costs are required to be amortized over the shorter of the life of the refunded bonds or the life of the refunding bonds. The 1994 Series B refunding resulted in an economic gain of $11,962,013 and a difference in cash flows of $10,104,447. The 1995 Series A refunding resulted in an economic gain of $1,174,540 and a cash flow difference of ($1,430,338).

In prior years, the State of Montana and the Board of Regents of Higher Education have issued general obligation and revenue refunding bonds, the proceeds of which were used to defease certain bond issues already outstanding. The proceeds of the refunding issues were placed in escrow accounts and invested in U.S. Treasury Obligations that, together with interest earned thereon, will be sufficient for future payment of principal and interest on the refunded issues. Accordingly, the debt is considered defeased for financial reporting purposes and the liability for the defeased bonds is not included in the financial statements. At June 30, 1995, the defeased bonds outstanding are as follows (in thousands):

General Obligation	$ 18,245
Special Revenue	126,420
Higher Education Revenue	37,910
Total	$182,575

G. Enterprise Funds

(1) Economic Development & Municipal Finance Consolidation Act Bonds (EDB) - This program is directed by the nine-member Board of Investments which is attached to the Department of Commerce for administrative purposes. This program assists Montana's small businesses and local governments in obtaining long-term, fixed rate financing through private Montana lending institutions. Outstanding obligations are as follows (in thousands):

Program	Series	Amount Issued	Interest Rate (%)	Principal Payments FY 1996	Principal Payments In Year of Maturity	Balance June 30, 1995
Industrial Development Revenue Bonds (Pooled Loan) (1)	1984A,F,G	$ 1,495	7.0-10.75	$ 55	$ 340 (2006)	$ 1,180
Industrial Development Revenue Bonds (Pooled Loan) (1)	1985A,C-I,K	3,160	6.75-10.1	110	395 (2007)	2,520
Municipal Finance Consolidation Act Bonds (Irrigation Program) (2)	1988	4,976	6.6-7.75	455	130 (2014)	4,804
Economic Development Bonds (Conservation Reserve Enhancement Program) (3)	1991A-B	7,380	10.0-11.2	1,160	285 (2000)	3,985
Municipal Finance Consolidation Act Bonds (4)	1991	6,234	4.75-6.5	466	294 (2005)	3,792
TOTAL BONDS PAYABLE		$23,245		$ 2,246		$16,281
Conservation Reserve Enhancement Program (CRP Notes) (3)		3,307	9.0-9.92	766	455 (1999)	3,307
TOTAL BONDS/NOTES PAYABLE		$26,552		$ 3,012		$19,588

(1) These bonds, which may not aggregate more than $75 million, are limited obligations of the Board of Investments payable solely from and secured by certain revenues and assets pledged pursuant to an Indenture of Trust. The bonds do not constitute a debt, liability or legal obligation of the State of Montana. However, if the balance in the "Capital Reserve Account A" falls below the indenture requirement, the Governor is required to request the Legislature to appropriate funds to restore the balance. The Legislature may, but is not legally obligated to, appropriate funds to correct any such deficiency. Principal payments (accrued interest to be added) are due each March 15. Series 1985J ($665,000) and Series 1985B ($775,000) were recalled on March 15 and December 15, 1988, respectively, without a gain or loss on extinguishment. Series 1985L ($325,000) was recalled in March 1992, without a gain or loss on extinguishment. Series 1984B ($510,000), Series 1984C ($255,000), Series 1984D ($970,000) and Series 1984E ($420,000) were retired March 15, 1995, through the exercise of optional redemption provisions resulting from loan prepayments. Loss from early extinguishment totaled $40,877.

(2) These bonds were issued to obtain funds for the Board of Investments, State of Montana, to purchase the refunding bonds of participating Irrigation Districts for the purpose of prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans. The Irrigation Bonds and the interest thereon are payable solely from the collection of a special tax or assessment levied against real property in the Irrigation District. The Irrigation Bonds are not obligations of the State of Montana. However, the Irrigation Bonds are limited obligations of the Board of Investments due to an irrevocable pledge to lend money for deposit by the Trustee of the Irrigation District Pooled Loan Program Reserve Account E in an amount equal to any deficiencies therein on any payment date. The indenture does not permit the issuance of additional bonds.

(3) These bonds and notes were issued for the purpose of providing funds for the Board of Investments, State of Montana, to make loans to participating farmers and ranchers under its Conservation Reserve Enhancement Program. The Series 1991 Bonds are not in any way a debt or liability of the State of Montana, and neither the full faith and credit, nor the taxing power of the State of Montana is pledged to the payment of the principal of or interest on the Series 1991 Bonds. However, the 1991 Bonds are limited obligations of the Board of Investments. The Bond Anticipation Notes which matured on November 15, 1992, were reissued to correspond with maturities per the underlying loans. On November 15, 1994, eleven BAN's were reissued to comply with statutory requirements limiting the maturity of notes to five years from issuance date.

(4) These bonds were issued for the purpose of providing funds for the Board of Investments, State of Montana, to purchase the general obligation refunding bonds of 16 participating Montana School Districts. The School District Refunding Bonds and the interest thereon are payable from real property taxes levied within the school district. These bonds are limited obligations of the Board of Investments, and are not a debt or liability of the State of Montana, and neither the faith and credit nor the taxing power of the state is pledged to the payment of principal of or interest on the bonds.

Debt service requirements (principal & interest) for EDB are as follows (in thousands):

1996	1997	1998	1999	2000	2001+	Totals
$ 4,586	$4,527	$3,861	$2,936	$3,022	$9,763	$28,695

(2) Board of Housing (BOH) (Housing Authority) - Component Unit - Revenue Bonds - The Montana Board of Housing is authorized to have an aggregate of $975 million of housing mortgage bonds outstanding. The bonds are payable from mortgage loan repayments and investment earnings. All bonds issued to date are secured by federally insured or guaranteed mortgages. Statutory provisions exist wherein the Governor shall include in the executive budget submitted to the legislature the sum required to fund possible future deficiencies in required reserves; however, the legislature is not legally required to appropriate funding for such deficiencies. None of the outstanding bonds were issued under these provisions. BOH Revenue Bonds (net) outstanding at June 30, 1995, were as follows (in thousands):

Program	Series	Amount Issued	Interest Rate (%)	Principal Payments FY 1996	Principal Payments In Year of Maturity	Balance June 30, 1995
Single Family I	1977A	$ 21,470	4.5-8.0	$ 950	$ 1,850 (2009)	$ 9,830
	1977B	35,060	4.15-8.0	1,470	3,160 (2009)	16,490
	1978A	13,600	6.0-6.5	570	1,115 (2010)	6,650
	1987A	20,000	5.3-8.625	450	1,240 (2018)	8,560
	1987B1-B2	20,000	6.25-9.0	160	780 (2019)	6,865
	1988A1-A2	19,999	5.4-8.5	315	2,675 (2027)	10,698
Subtotal		$130,129		$ 3,915		$ 59,093
Single Family II	1979A	$100,000	5.1-6.6	$ 3,475	$ 7,700 (2011)	$ 40,660
	1983C	114,998	5.75-10.7	-	8,640 (2010)	19,738
	1984A	75,002	7.0-10.375	-	13,680 (2010)	6,782
	1985A	40,000	5.5-9.75	-	7,044 (2016)	11,714
	1985B	74,997	5.7-9.75	-	1,165 (2017)	5,420
	1992RA	22,520	5.65-6.5	-	10 (2033)	22,520
	1994A	25,725	3.1-6.1	1,465	615 (2025)	23,795
	1994B	40,815	3.8-6.9	2,410	1,300 (2025)	37,455
	1994C	20,000	4.5-6.8	-	600 (2027)	20,000
	1995A	33,580	4.75-6.55	-	1,105 (2027)	33,580
Subtotal		$547,637		$ 7,350		$221,664
Single Family III	1988B1-B2	25,000	6.2-8.9	235	1,060 (2021)	12,380
Single Family IV	1989A1-A2	25,000	7.0-9.2	205	1,340 (2021)	12,690
Single Family V	1990A1-A2	25,000	6.2-8.525	270	1,885 (2022)	14,860
Single Family V	1990B1-B2	25,000	6.2-8.5	265	1,915 (2022)	15,640
Single Family VII	1990C1-C2	25,000	6.55-8.95	255	1,625 (2022)	15,710
Single Family VIII	1991A1-A2	25,000	5.2-8.275	310	1,920 (2023)	18,725
Single Family IX	1991B1-B2	25,000	5.5-8.4	290	1,770 (2023)	19,185
Single Family X	1992A1-A2	25,000	4.45-7.85	305	1,685 (2024)	20,675
Multifamily	1978A	$ 4,865	6.125	$ 65	$ 645 (2020)	$ 4,305
	1992	9,725	2.95-6.55	160	150 (2024)	9,465
Subtotal		$ 14,590		$ 225		$ 13,770
TOTAL		$892,356		$13,625		$424,392
Unamortized bond premiums (net)						35
TOTAL BOH BONDS PAYABLE (net)						$424,427

Debt service requirements (principal & interest) for all BOH programs are as follows (in thousands):

1996	1997	1998	1999	2000	2001+	Total
$39,614	$39,391	$39,117	$38,974	$39,015	$723,684	$919,795

(3) Payroll Tax Bonds (Workers' Compensation Program) - State Compensation Insurance - Old - Component Unit - The Board of Investments of the State of Montana issued $174.595 million of bonds for the purpose of funding the State's liability and cost in administering and paying claims for injuries resulting from accidents, prior to July 1, 1990, that are subject to the Montana Workers' Compensation Act and the Occupational Disease Act of Montana. The bonds are limited obligations of the State of Montana payable solely from and secured by certain payroll tax revenues collected by the Department of Revenue of the State of Montana. Included in the issued bonds is $32.500 million of Series 1993 variable rate demand bonds issued October 27, 1993, and maturing June 1, 2020. The bonds are subject to purchase on demand of the holder at a price equal to principal plus accrued interest on thirty days notice and delivery to the remarketing agent. The Montana Board of Investments (BOI) has entered into a Standby Liquidity Agreement to purchase any tendered bonds which are unable to be remarketed by the remarketing agent. The BOI is entitled to the same rights as any other bondholder, including the right to receive payments of principal and interest. As of June 30, 1995, $32.500 million of the demand bonds are outstanding.

Program	Series	Amount Issued	Interest Rate (%)	Principal Payments FY 1996	Principal Payments In Year of Maturity	Balance June 30, 1995
Payroll Tax Bonds	1991	$142,095	4.9-6.875	$2,275	$10,590 (2020)	$134,115
Less: Unamortized discount						(1,786)
TOTAL BONDS PAYABLE (net)						$132,329

Debt service requirements (principal & interest) are as follows (in thousands):

1996	1997	1998	1999	2000	2001+	Totals
$11,321	$11,318	$11,318	$11,318	$11,320	$226,402	$282,997

H. **No-Commitment Debt** - Information is presented below for financing authorities participating in debt issues. The State has no obligation for this debt. Accordingly, these bonds and notes are not reflected in the accompanying financial statements.

(1) **Montana Board of Investments (BOI)** - The BOI is authorized to issue industrial revenue bonds to finance projects for qualifying borrowers. Assets and revenues of the borrower are pledged to repay the bonds. The industrial revenue bonds issued by BOI do not constitute a debt, liability, obligation or pledge of faith and credit of the State of Montana. At June 30, 1995, the BOI had issued industrial revenue bonds as follows (in thousands):

Project	Date of Issue	Amount Issued	Amount Outstanding
Farmers Union	August 1985	$ 3,925	$ 3,925
Bozeman Holiday Inn	October 1987	4,485	3,815
Colstrip	October 1989	60,800	60,800
BGI	July 1993	118,345	118,345
Total		$187,555	$186,885

(2) **Beginning Farm Loan Program** - The Montana Department of Agriculture is authorized to request issuance of bonds by the Montana Board of Investments to finance projects for beginning farmers within the State, if it appears, after a properly noticed public hearing, that the project is in the public interest of the State. These non-recourse, industrial development revenue bonds do not constitute a debt, liability, or obligation of the State of Montana. The amount issued and outstanding at June 30, 1995, is as follows:

Jorgensen Project - issued $81,600; outstanding $42,981.

(3) **Montana Health Facility Authority (MHFA) - Component Unit** - The MHFA is authorized to issue bonds and notes to finance projects for qualifying health institutions. The obligations issued by MHFA do not constitute a debt, liability, obligation or pledge of faith and credit of the State of Montana. At June 30, 1995, the MHFA had issued bonds and notes as follows (in thousands):

Project	Date of Issue	Amount Issued	Amount Outstanding
West Mont Home Health Services	June 1985	$ 440	$ 226
MHFA 1985 Pooled Loan Projects	December 1985	66,900	37,300
Community Provider Pooled Loans	October 1988	1,461	1,055
St. Peters Community Hospital	March 1989	9,365	7,905
Kalispell Regional Hospital	June 1990	14,475	12,925
Community Provider Pooled Loan	July 1990	5,858	5,136
Deaconess Medical Center (Series A)	February 1991	18,000	18,000
Deaconess Medical Center (Series B)	February 1991	18,000	18,000
Sisters of Providence	May 1991	56,535	50,510
Montana Deaconess Medical Center	June 1991	12,010	11,015
St. Peters Community Hospital	August 1991	7,000	6,200
Deaconess Medical Center	September 1991	32,650	30,250
Deaconess Medical Center	September 1991	7,000	4,990
Community Provider Pooled Loans	September 1991	3,944	3,553
Hospital Pooled Loans	August 1992	4,645	3,950
Richland Opportunities	January 1993	200	188
Bozeman Deaconess Foundation	June 1993	14,900	13,460
Holy Rosary Hospital	September 1993	18,275	18,080
Sisters of Charity	January 1994	50,915	49,180
Deaconess-Billings Clinic	January 1994	58,870	58,870
Residential Support Services	March 1994	50	48
Mineral Community Hospital	March 1994	39	30
Montana Developmental Center(1)	August 1994	13,100	13,100
Community Memorial Hospital	October 1994	570	570
St. John's Retirement Home	October 1994	2,000	2,000
North Valley Hospital (Series C)	October 1994	695	695
North Valley Hospital (Series D)	October 1994	1,310	1,310
St. John's Retirement Home	October 1994	300	300
Total		$419,507	$368,846

(1) During fiscal year 1995, MHFA loaned $13,100,000 to the Department of Corrections for the Montana Developmental Center Project.

13. INTERFUND TRANSACTIONS

During the course of normal operations, the State has numerous transactions between funds to finance operations, provide services, construct assets, service debt, etc. Montana statutes include a provision for interfund loans when the expenditure of an appropriation is necessary and the cash balance in the account from which the appropriation was made is insufficient to pay the expenditure. To the extent that certain transactions between funds are not paid or received as of June 30, 1995, interfund receivables/payables (Due From/To Other Funds) are recorded. The schedule below presents all interfund balances outstanding at June 30, 1995, (in thousands) and interfund activity for the fiscal year then ended:

Within Primary Government and Component Units	Interfund Loans/Advances Receivable	Interfund Loans/Advances Payable	Due From Other Funds	Due To Other Funds	Operating Transfers In	Operating Transfers Out	Residual Equity Transfers In	Residual Equity Transfers Out
General	$ 12,454	$ -	$ 35,073	$ 22,846	$91,525	$122,005	$ 1,084	$ -
Special Revenue								
State	38,380	2,508	57,822	60,586	174,271	59,551	-	1,530
Federal	-	45,398	9,874	12,607	214	4,345	-	72
Debt Service								
Coal Tax Bonds	-	-	2	6	964	65	-	-
Long-Range Building Program	-	-	32	1,780	15,545	48,782	28	-
Water Development	-	-	1	508	607	736	891	-
Highway Revenue Bonds	-	-	-	454	57,299	-	-	-
Transportation Bldg. Complex	-	-	-	56	567	-	-	-
Renewable Resource	-	-	-	201	-	201	-	-
Energy Bonds	-	-	48	179	319	131	-	-
Capital Projects								
Long-Range Building Program	-	-	183	79	2,729	815	-	28
Fed/Priv Construction Grants	-	-	-	6	-	-	-	-
Capital Land Grant	-	-	10	-	450	555	-	-
Enterprise								
Economic Dev. Bonds	-	-	-	10	-	-	-	-
Liquor Stores	-	-	1	1,659	(3)	15,383	-	-
Hail Insurance	-	-	-	19	-	26	-	-
State Lottery	-	-	2	2,470	-	8,594	-	-
Prison Ranch	75	-	80	47	-	-	-	-
Prison Industries	-	75	87	100	-	-	-	-
Uninsured Employers	-	-	10	21	-	-	-	-
Subsequent Injury	-	-	-	9	-	-	-	-
Montana Career Info. Sys.	-	-	5	4	-	-	-	-
Sec. of State Business Services	-	-	-	84	-	-	-	422
Historical Soc. Publications	-	-	2	21	51	-	-	-
W. Yellowstone Airport	-	-	-	3	22	-	-	-
Local Govt. Audits	-	70	1	56	146	-	-	-
Internal Service								
Highway Equipment	-	-	904	448	-	-	-	-
Employees' Grp. Ben.	-	-	214	27	-	-	-	-
ISD	-	-	1,223	343	97	-	-	-
MSU Group Insurance	-	-	-	8	-	-	-	-
Admin. Insurance	-	-	65	56	70	-	-	-
FWP Equipment	-	-	332	7	185	-	-	-
Motor Pool	-	-	103	40	-	-	-	-
Admin. Prop. & Supply	-	-	122	38	-	-	-	-
Publications & Graphics	-	-	325	81	-	-	-	-
Buildings & Grounds	-	-	24	47	43	51	-	-
Labor Central Services	-	-	422	420	-	-	-	-
Commerce Central Services	-	-	94	137	-	-	-	-
DHES Indirect Cost Pool	-	-	306	90	-	-	-	-
FWP Warehouse Inventory	-	-	13	1	-	-	-	-
Mail & Messenger	-	345	57	16	-	-	-	-
Investment Division	-	-	38	84	-	-	-	-
Aircraft Operation	-	-	20	23	108	-	-	-
Justice Legal	-	-	53	31	-	-	-	-
OPI Central Services	-	-	81	74	393	-	-	-
Personnel Training	-	-	18	8	-	-	-	-
Records Management	-	-	38	21	-	-	-	19
FWP Office Supply	-	-	-	2	-	-	-	-
Bad Debt	-	-	9	11	-	-	-	-
Admin. Legal	-	-	-	5	-	-	-	-
Local Govt Administration	-	-	8	7	-	-	-	-
Natural Gas Procurement	-	-	-	1	-	-	-	-
Admin. DP Unit	-	-	-	2	-	-	-	-
Expendable Trusts								
Unemployment Insurance	-	-	3	-	-	-	68	-

Within Primary Government and Component Units	Interfund Loans/Advances Receivable	Interfund Loans/Advances Payable	Due From Other Funds	Due To Other Funds	Operating Transfers In	Operating Transfers Out	Residual Equity Transfers In	Residual Equity Transfers Out
Rural Development	-	-	-	3	-	-	-	-
Escheated Property	23	-	-	1	-	1,431	-	-
Rock Creek	-	-	-	4	-	-	-	-
Historical Society General	-	-	-	1	-	6	-	-
Nonexpendable Trusts								
Coal Tax Trust	-	-	5	16,111	-	38,116	-	-
Land Grants	-	23	244	10,524	1,431	40,966	-	-
Resource Indemnity	-	-	3	2,097	-	6,380	-	-
Parks Trust	-	-	-	153	-	922	-	-
Cultural Trust	97	-	-	82	-	500	-	-
Real Property	-	-	5	72	-	379	-	-
Noxious Weed Management	-	-	-	34	-	311	-	-
Thomas Teakle Trust	-	-	-	-	-	4	-	-
Pension Trusts								
PERS	11	-	2,162	2,114	-	-	-	-
Municipal Police	-	-	2,266	25	-	-	-	-
Firefighters Unified	-	-	4,167	20	-	-	-	-
Sheriffs	-	-	-	17	-	-	-	-
Highway Patrol	-	-	4	10	-	-	-	-
Judges	-	7	59	2	-	-	-	-
Game Wardens	-	4	-	4	-	-	-	-
Volunteer Firefighters	-	-	-	17	-	-	-	-
Agency								
Land Grant Interest	-	-	-	17	-	-	-	-
Performance Deposits	90	-	-	221	-	-	-	-
Central Payroll	-	-	21,430	-	-	-	-	-
Custodial Accounts	-	-	41	-	-	-	-	-
Unissued Warrants	-	-	70	1,777	-	-	-	-
Child Support Collections	-	-	228	849	-	-	-	-
Intergovernmental	-	2,700	1	10	-	-	-	-
Uncleared Collections	-	-	24	68	-	-	-	-
Bad Debts	-	-	1	81	-	-	-	-
COMPONENT UNITS								
Enterprise Funds								
Housing Authority	-	-	-	6	-	-		
State Comp. Insurance - New	-	-	2,042	109	-	-	-	-
State Comp. Insurance - Old	-	-	108	1,974	(10)	-	-	-
Pension Trusts								
Teachers Retirement System	-	-	569	-	-	-	-	-
Higher Education								
Current Funds								
General Operating	300	-	4,989	3,892	1,249	1170	-	-
Designated	1,500	-	3,892	2,902	2,465	4,070	-	62
Auxiliary	-	-	843	1,880	599	9,061	-	80
Restricted	-	1,800	332	3,557	186	1,079	-	1
Fiduciary								
Student Loans	-	-	13	118	26	4	-	-
Endowments	-	-	-	-	948	7	-	-
Agency	-	-	4,816	2,197	-	-	-	-
Plant								
Unexpended	-	-	120	282	7,958	8,825	-	-
Renewal & Replacement	-	-	525	251	8,157	825	143	-
Retirement of Indebtedness	-	-	837	180	30,113	23,428	-	-
Totals	$ 52,930	$ 52,930	$157,501	$157,501	$398,724	$398,724	$ 2,214	$ 2,214

Between Primary Government and Component Units	Due From Comp. Units	Due To Primary Govt	Due To Comp. Units	Due From Primary Govt	Transfer From Comp. Units	Transfer To Primary Govt	Transfer To Comp. Units	Transfer From Primary Govt
General	$ 422	$ -	$ 162	$ -	$ -	$ -	$ 96,352	$ -
Special Revenue								
State	352	-	27,906	-	986	-	65,254	-
Federal	9	-	378	-	-	-	-	-
Debt Service								
Long-Range Building Program	10	-	-	-	317	-	-	-

Between Primary Government and Component Units	Due From Comp. Units	Due To Primary Govt	Due To Comp. Units	Due From Primary Govt	Transfer From Comp. Units	Transfer To Primary Govt	Transfer To Comp. Units	Transfer From Primary Govt
Capital Projects								
Long Range Building	-	-	160	-	-	-	-	-
Enterprise								
Prison Industries	5	-	-	-	-	-	-	-
Internal Service								
ISD	234	-	10	-	-	-	-	-
MUS Group Insurance	370	-	-	-	-	-	-	-
Admin. Insurance	-	-	2	-	-	-	-	-
FWP Equipment	1	-	-	-	-	-	-	-
Motor Pool	1	-	-	-	-	-	-	-
Admin. Property & Supply	28	-	1	-	-	-	-	-
Publications & Graphics	163	-	-	-	-	-	-	-
Commerce Central Services	7	-	2	-	-	-	-	-
Mail & Messenger	1	-	-	-	-	-	-	-
Investment Division	17	-	-	-	-	-	-	-
Records Management	1	-	-	-	-	-	-	-
Nonexpendable Trusts								
Land Grants	-	-	523	-	-	-	-	-
Pension Trusts								
PERS	279	-	21	-	-	-	-	-
Agency								
Land Grant Interest	-	-	1	-	-	-	-	-
Employees Defer. Comp.	79	-	-	-	-	-	-	-
Central Payroll	988	-	-	-	-	-	-	-
Child Support Collections	5	-	-	-	-	-	-	-
Uncleared Collections	1	-	1	-	-	-	-	-
Bad Debts	1	-	12	-	-	-	-	-
COMPONENT UNITS								
Enterprise Funds								
Housing Authority	-	40	-	1	-	-	-	-
Health Facilities Authority	-	5	-	-	-	-	-	-
State Comp. Ins. - New	-	893	-	10	-	-	-	-
State Comp. Ins. - Old	-	114	-	27,604	-	1,303	-	50,091
Pension Trusts								
Teachers Retirement System	-	30	-	27	-	-	-	-
Higher Education								
Current Funds								
General Operating	-	677	-	13	-	-	-	111,455
Designated	-	338	-	108	-	-	-	-
Auxiliary	-	25	-	222	-	-	-	-
Restricted	-	22	-	735	-	-	-	6
Fiduciary								
Student Loans	-	-	-	1	-	-	-	-
Endowments	-	-	-	-	-	-	-	6
Agency	-	804	-	91	-	-	-	-
Plant								
Unexpended	-	22	-	126	-	-	-	26
Renewal and Replacement	-	4	-	97	-	-	-	22
Retirement of Indebtedness	-	-	-	144	-	-	-	-
Totals	$ 2,974	$ 2,974	$ 29,179	$ 29,179	$ 1,303	$ 1,303	$ 161,606	$161,606

14. **FUND DEFICITS**

The following funds have a deficit fund balance/retained earnings found on the operating statements for June 30, 1995, (in thousands):

Primary Government	Deficit
Enterprise Fund	
Department of Agriculture	$ (176)
Internal Service Fund	
Administration Insurance	(13,182)
Justice Legal	(23)
Bad Debt	(10)
Administration - Legal	(15)
Local Government Admin	(32)
Admin. DP Unit	(4)
Total Fund Deficits - Primary Government	$ (13,442)

Component Units	
Proprietary Fund Type	
State Comp. Ins. (Old Fund)	$(413,938)
Higher Education Funds	
General Operating Subfund	(15,518)
Total Fund Deficits - Component Units	$(429,456)

The deficit retained earnings in the Administration Insurance Fund and the State Compensation Insurance Fund-Old are due to recording the expense for estimated claims including claims incurred but not reported. Refer to Note 9 for further discussion of these funds. The deficit fund balance in the General Operating Subfund is due to the expense associated with the recording of compensated absences.

15. RESERVED FUND BALANCES FOR TRUSTS

The Special Revenue trust reserved fund balance is attributed to the Fish, Wildlife and Parks Mitigation Trust Account within the State Special Revenue Fund.

The Coal Tax Trust reserved fund balance in the Nonexpendable Trust Fund consists of the following (in thousands): Permanent Coal Tax Trust $520,364, Treasure State Endowment Fund $31,793 and the School Bond Contingency Fund $2,152. All other Nonexpendable Trust Fund balances, $462,641, are Reserved for Trust Principal.

16. SEGMENT INFORMATION

Selected financial information concerning all enterprise operations for the fiscal year ended June 30, 1995, is as follows (in thousands):

	Economic Development Bonds	Liquor Stores	Hail Insurance	State Lottery	Other Enterprise*	Total Enterprise
Operating Revenues:						
Charges for Services	$ 62	$ 40,596	$ -	$ 32,762	$ 7,728	$ 81,148
Investment Earnings	510	-	283	201	268	1,262
Contrib./Premiums	-	-	2,025	-	18	2,043
Grants/Contracts/Donations	-	-	-	-	12	12
Taxes	-	10,259	-	-	-	10,259
Other Revenues	2,525	63	-	-	4,181	6,779
Operating Expenses:						
Depreciation	4	165	1	61	376	610
Amortization	-	-	-	-	6	6
Other	3,112	34,902	907	24,310	10,515	73,746
Operating Income (Loss)	(9)	15,851	1,400	8,592	1,307	27,141
Nonoperating Revenues (Expenses)	-	(50)	-	2	6	(42)
Oper. Trans. In (Out)	-	(15,386)	(26)	(8,594)	219	(23,787)
Net Income (Loss)	$ (9)	$ 415	$ 1,374	$ -	$ 1,532	$ 3,312
Current Assets	$ 2,768	$ 9,821	$ 7,174	$ 4,989	$ 13,004	$ 37,756
Current Liabilities	(1,290)	(7,535)	(894)	(4,982)	(906)	(15,607)
Net Working Capital	$ 1,478	$ 2,286	$ 6,280	$ 7	$ 12,098	$ 22,149
Total Assets	$ 42,730	$ 11,085	$ 7,182	$ 5,386	$ 19,841	$ 86,224
Total Liabilities	40,840	7,930	1,553	5,147	2,344	57,814
Fund Equity	$ 1,890	$ 3,155	$ 5,629	$ 239	$ 17,497	$ 28,410
Long-Term Obligations	$ 39,550	$ 395	$ 659	$ 165	$ 1,068	$ 41,837
Cur. Yr. Capital Cont.	$ -	$ -	$ -	$ 238	$ -	$ 238
Acquisition of Fixed Assets	$ -	$ 171	$ 2	$ 45	$ 532	$ 750
Disposal of Fixed Assets	$ 1	$ 123	$ -	$ 37	$ 202	$ 363

1. The Economic Development Bond Program, administered by the Board of Investments, assists Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.

2. The Liquor Division of the Department of Revenue administers the State liquor operations (Liquor Stores). This fund accounts for liquor licensing activities and the sale and distribution of alcoholic beverages.

3. The Hail Insurance Fund provides benefit payments to producers for crop acreage insured and accounts for premium assessments paid (See Note 9).

4. The State Lottery accounts for the operations of Montana's lottery which began in June 1987.

* Other Enterprise is composed of the following funds (listed by administering agency):

Department of Agriculture
Department of Agriculture

Department of Commerce
Local Government Audits

Department of Transportation
West Yellowstone Airport

Fish, Wildlife and Parks
FWP Snowgroomer Rental

Montana Historical Society
Historical Society Publications

Department of Labor and Industry
Montana Career Infor. System
Subsequent Injury
Uninsured Employers

Secretary of State
Business Services

Department of Corrections and Human Services
Prison Ranch\Industries
Women's Prison Industries
Swan River Vocational Training

17. CONTRIBUTED CAPITAL

During fiscal year 1995, contributed capital changed by the following amounts (in thousands):

	PRIMARY GOVERNMENT		COMPONENT UNITS
	Enterprise Fund	Internal Service Fund	Enterprise Fund
Beginning Balance - July 1, 1994	$ 3,252	$ 5,627	$ 12,000
Additions:			
Contrib. Capital Transfers-in	238	1,734	-
Deletions:			
Contrib. Capital Transfers-out	-	(2,018)	(416)
Ending Balance -June 30, 1995	$ 3,490	$ 5,343	$ 11,584

18. NONEXPENDABLE TRUST FUNDS' INVESTMENT INCOME

Investments are recorded in Nonexpendable Trust Funds using the full accrual basis of accounting. However, certain investment earnings attributable to these trusts are transferred elsewhere, as summarized below:

Nonexpendable Trust Fund	Reporting of Investment Earnings
Coal Tax Trust	Permanent Trust Accounting Entities - Investment Earnings are distributed eighty-five percent to the General Fund and fifteen percent to the Public School Equalization Account in the State Special Revenue Fund for fiscal year 1995. Treasure State Endowment Accounting Entity - A specified amount may be transferred monthly to the State Special Revenue Fund to cover administrative costs, grants, and loans to local governments for infrastructure projects. In 1995, transfers of $448,466 were made.
Resource Indemnity	Resource Indemnity Tax investment earnings are distributed to the State Special Revenue Fund as follows: At the beginning of each biennium, $175,000 to the Environmental Contingency Account; $50,000 to the Oil and Gas Damage Mitigation Account; $1,025,000 to the Renewable Resource Loan and Grant Account; $2,200,000 to the Reclamation and Development Grant Account; $250,000 to the Water Storage Account; (beginning in FY95) $240,000 to the Renewable Resource Loan and Grant Account; and the remaining investment earnings are distributed thirty-eight percent to the Renewable Resource Loan and Grant Account; fifteen percent to the Hazardous Waste/Comprehensive Environmental Response, Compensation, and Liability Act Account; forty-one and one-half percent to the Reclamation and Development Grant Account; and five and one-half percent to the Environmental Quality Protection Account. The beginning of a biennium is the even numbered fiscal year; therefore, the fixed amounts noted above were not distributed in FY95 except as specified.
Parks Trust	Investment earnings are distributed to the State Special Revenue Fund for the maintenance of parks by the Department of Fish, Wildlife and Parks.
Cultural Trust	Investment earnings are distributed to the State Special Revenue Fund for cultural and aesthetic projects administered by the Montana Arts Council.
Land Grants	Ninety-four percent of investment earnings are transferred to the State Special Revenue Fund for the Office of Public Instruction to distribute to public schools; five percent is distributed to Higher Education Units (Current and Plant Funds);

	and one percent to the Department of Corrections & Human Services (General Fund and State Special Revenue Fund).
Real Property	Investment earnings are transferred to the State Special Revenue Fund for use by the Department of Fish, Wildlife and Parks to operate, maintain and develop its real property.
Noxious Weed Management	Investment earnings are transferred to the State Special Revenue Fund for noxious weed management projects.
Thomas Teakle	Investment earnings are transferred to the State Special Revenue Fund for the Montana Historical Society's library acquisitions.

19. RELATED PARTY TRANSACTIONS

The Montana Board of Regents, an agency within the State, is the guarantor of the loans owned by the Montana Higher Education Student Assistance Corporation (MHESAC), a private non-profit corporation. The Board of Regents and MHESAC have four common board members. Approximately 66% of the Regents' outstanding loan volume ($400,725,000) is held by MHESAC. Lewis & Clark County owns the building which houses the staff of the Board of Regents and the Office of the Commissioner of Higher Education (OCHE). Upon satisfaction of the financing obligations, MHESAC has the option to purchase the building. OCHE pays MHESAC for its share of various costs such as personnel costs for employees of MHESAC who perform services that are of direct benefit to the State; equipment leases; computer maintenance costs; utilities and other shared operating expenses. The total amount of these expenses for fiscal year 1995 amounted to $321,177. MHESAC employees are allowed to participate in the University System group insurance plan and MHESAC also reimburses OCHE for services such as telephones, postage and computer supplies. During fiscal year 1995 MHESAC paid OCHE a total of $399,582.

There is a foundation affiliated with each university and college unit which solicits contributions and manages those funds for the benefit of that unit. Each foundation is a separate legal entity; each unit exercises significant influence over its affiliated foundation. The units generally provide the foundations with office space, some staff and related office expenses and an annually contracted fee. The units paid their foundations approximately $594,000 in fiscal year 1995. In return the universities received from their foundations approximately $8,039,000 during fiscal year 1995 for scholarships and academic/institutional support.

20. CONTINGENCIES

A. Litigation - The State is party to legal proceedings, which normally occur in government operations. The legal proceedings are not, in the opinion of the State's legal counsel and the Department of Administration, likely to have a material adverse impact on the State's financial position, except where listed below.

The Crow Tribe filed suit in 1978 in federal district court seeking a declaration that Montana's coal severance and gross proceeds taxes are invalid as applied to the production of coal on the Crow Reservation and to the production of coal owned by the Tribe located in an off-reservation area, known as the "Crow ceded area" or "ceded strip", which lies roughly between the northern boundary of the reservation and the Yellowstone River. The amount of coal reserves falling within these categories has not been precisely determined. The taxes were alleged to be invalid under a variety of theories, of which the most prominent were that the state taxes conflict with federal policy by preventing the marketing of Crow coal and infringe on tribal sovereignty by depriving the Tribe of revenue needed to provide governmental services to the Crow people. In addition to a declaration that the taxes were invalid, the Tribe sought restitution for an amount equal to the severance and gross proceeds taxes paid by Westmoreland Resources, Inc. (Westmoreland), the only company currently mining coal claimed by the Tribe, together with the interest which accrued to the Coal Severance Tax Trust Fund on the amount of taxes paid.

In January 1983, the court ordered Westmoreland's future severance tax payments placed in escrow pending the outcome of the litigation. The State has received no severance tax payments from Westmoreland with respect to the coal mined on the ceded strip since the entry of this order. Prior to 1983, Westmoreland's annual severance tax payments varied from a low of $5.407 million in 1976 to a high of $7.078 million in 1979.

In June 1987, the Ninth Circuit Court of Appeals ruled that Montana is preempted from applying its severance and gross proceeds taxes on coal within the ceded strip held in trust for the Crow Tribe and on coal mined on the reservation. In August 1987, the State docketed an appeal of the decision to the United States Supreme Court, and in January 1988, that Court summarily affirmed the Court of Appeals' judgment.

As a result of the Supreme Court's affirmance, two principal issues remained in the case, one of which has been resolved. The first issue involved the appropriate disposition of the escrowed moneys, to which the State disclaimed any interest after the Supreme Court's decision. The district court concluded in September 1988 that these moneys should be paid to the United States in trust for the Tribe. The escrowed funds totaling $30.1 million were distributed in May 1989 to the United States.

The second issue involved tax monies paid by Westmoreland to the State but not escrowed. Their amount, exclusive of interest, is approximately $47 million. The Tribe and the United States, which had intervened on the Tribe's behalf in 1983, claimed those taxes under a restitution theory. They additionally sought prejudgement interest on that amount which, as of March 31, 1994, was estimated at $214.1 million. Trial on their claim was held in April and May 1994, and

in November 1994, the district court ruled in the State's favor. That ruling is presently on appeal before the Ninth Circuit Court of Appeals. The State believes the district court's decision is correct. Nevertheless, the issues raised by the Tribe and United States' claim are novel, and their resolution cannot be predicted with certainty.

The Tribe and the United States additionally sought leave to amend their complaints in April 1993 to allege damages arising from loss of possible production under a coal lease with Shell Oil Company. They estimated those damages at $250.4 million as of March 31, 1994. The district court denied the requested amendment in July 1993 and again in February 1994. The court, however, addressed that claim in its November 1994 decision and rejected it. The Tribe has raised that aspect of the court's decision in the current appeal before the Ninth Circuit. The State believes the district court's denial of leave to amend the Tribe's and the United States' complaints was proper and that, in any event, the court's rejection of the claim in its November 1994 decision was correct.

B. Federal Contingencies:

Federal Financial Assistance - The State receives federal financial assistance for specified purposes which are subject to review and audit in accordance with the Single Audit Act of 1984. Any disallowances resulting from these audits would become the liability of the State. There are no disallowances reported as of June 30, 1995.

USDA Food Stamp Coupons/Commodities - The State no longer has custodial responsibility for USDA food stamp coupons. The Department of Social and Rehabilitation Services has contracted with Sacramento Services Development Corporation (SSDC) in Sacramento, California, to mail-issue 100% of all food stamps. SSDC is responsible for the storage of all food stamp coupons and carries adequate insurance to cover the State's potential losses. In fiscal year 1995, Montana issued $57,290,523 in food stamp coupons; Montana's portion of the food stamps held by SSDC at June 30, 1995, is estimated to be $28,207,605.

In fiscal year 1995, the State distributed $6,578,140 in commodities. The value at June 30, 1995, of commodities stored in the State's warehouses is $1,878,487 for which the State is liable in the event of loss.

Social Security - The Social Security Administration (SSA) has assessed the State for the alleged failure to withhold and forward social security contributions for part-time employees for the years 1984 through 1986. The matter has been fully submitted for a final administrative decision. The amount at issue is estimated to be $2.5 million plus interest of approximately $1 million which continues to accrue at a rate of 6% per annum. Of the principal amount, $720,000 is estimated to be the initial liability of the State's central payroll; a proportional amount of the interest figure provided would be the State's responsibility. The balance of the amount owing is the initial responsibility of various political subdivisions. The portion of that amount that the State might have to pay because of the current nonexistence of some of those political subdivisions, should not be substantial, approximately $5,000.

Gain Contingencies - Certain natural resource and corporation tax assessments are not reported on the State's financial statements because they are being protested administratively. As of June 30, 1995, the following assessments (by fund type) were outstanding (in thousands):

Taxes	General	Special Revenue	Debit Service	Nonexpendable Trust
Corporation	$ 2,442	$ -	$ 182	$ -
Coal Severance	3,454	7,412	213	11,363
Oil & Gas	3,157	-	-	-
Resources Indemnity	-	173	-	220
Totals	$ 9,053	$ 7,585	$ 395	$ 11,583

Collectibility of these contingencies is dependent upon the decisions of the court, other authorities, or agreed upon settlements. Interest related to Corporation Tax Assessments is distributed 100% to the General Fund.

21. SUBSEQUENT EVENTS

On July 13, 1995 the Montana Supreme Court upheld a lower court's judgement against the Montana School for the Deaf and Blind for wages due certain school employees. Damages and costs of litigation are estimated to be $457,000 which will be paid out of the General Fund.

On July 24, 1995, the State Compensation Insurance Fund applied $21,495,949 of surplus payroll tax collections that had accumulated in the Old Fund to defease a portion of the Series 1991 Payroll Tax Bonds issued by the State Board of Investments to pay unfunded liabilities of the Old Fund. The State Fund defeased $20,880,000 of the 6.875 percent term bonds due on June 1, 2020.

On September 13, 1995, the Board of Housing (Housing Authority) issued $88,000,000 in Single Family Program Bonds, Series 1995B. On October 16, 1995, a portion of the proceeds of these bonds will be used to optionally redeem $40,660,000 of the 1979 series A bonds.

In September 1995, the Board of Regents of the Montana University System authorized the University of Montana to proceed with the planning for the issuance of Series C 1995 Revenue Bonds of which $35,600,000 would be used for the acquisition, construction, repair, replacement, renovation, and improvement of certain facilities and properties at the University. Final authorization must be obtained from the Board of Regents prior to issuance of these bonds.

On October 3, 1995, the Board of Investments issued $7,500,000 in Municipal Finance Consolidation Act Bonds for the INTERCAP Revolving Program.

On October 18, 1995, the State issued $101,200,000 in Tax and Revenue Anticipation Notes, Series 1995, due June 30, 1996. The proceeds of the Notes will provide cash to support expenditures from the general fund, pending the receipt of taxes and revenues, for the fiscal year ending June 30, 1996.

On October 19, 1995, the Montana Health Facility Authority (MHFA) issued $5,650,000 in Health Care Facilities Revenue Bonds, Series A. The obligations issued by MHFA do not constitute a debt, liability, obligation or pledge of faith and credit of the State.

State of Montana
Schedule of Federal Financial Assistance by Federal Agency and Program
For the Fiscal Year Ending June 30, 1995

CFDA #	Federal Assistance Program by Federal Agency	1994 - 1995 Assistance Amount
Department of Agriculture		
	Agricultural Research Service	
10.001	Agricultural Research-Basic and Applied Research	$816,943
	Animal and Plant Health Inspection Service	
10.025	Plant and Animal Disease and Pest Control	154,161
	Agricultural Stabilization and Conservation Service	
10.063	Agricultural Conservation Program	8,294
10.064	Forestry Incentives Program	777
	Agricultural Marketing Service	
10.162	Inspection Grading and Standardization	29,177
	Cooperative State Research Service	
10.200	Grants for Agricultural Research, Special Research Grants	899,892
10.202	Cooperative Forestry Research	470,592
10.203	Payments to Agricultural Experiment Stations Under Hatch Act	1,928,274
10.205	Payments to 1890 Land- Grant Colleges and Tuskegee University	815
10.206	Grants for Agricultural Research-Competitive Research Grants	662,549
10.207	Animal Health and Disease Research	88,613
10.215	Sustainable Agriculture Research and Education	73,110
	Economic Research Service	
10.250	Agricultural and Rural Economic Research	193,147
10.299	Other Miscellaneous Non-Major Grants	52,008
	Food Safety and Inspection Service	
10.475	Cooperative Agreements with States for Meat and Poultry Inspection	296,040
	Extension Service	
10.500	Cooperative Extension Service	3,480,545
	Food and Nutrition Service	
10.550	Food Distribution	2,430,974
10.551	Food Stamps	57,290,523
10.553	School Breakfast Program	1,957,248
10.555	National School Lunch Program	12,697,773
10.556	Special Milk Program for Children	50,849
10.557	Special Supplemental Food Program for Women, Infants, and Children	10,732,970
10.558	Child and Adult Care Food Program	7,684,338
10.559	Summer Food Service Program for Children	650,113
10.560	State Administrative Expenses for Child Nutrition	250,676
10.561	State Administrative Matching Grants for Food Stamp Program	6,008,922
10.564	Nutrition Education and Training Program	101,593
10.567	Food Distribution Programs on Indian Reservations	4,411,484
10.568	Emergency Food Assistance (Administrative Costs)	122,088
10.569	Emergency Food Assistance (Food Commodities)	382,402
10.570	Nutrition Program for the Elderly (Commodities)	1,171,920
10.571	Food Commodities for Soup Kitchens	156,995
	Foreign Agricultural Service	
10.600	Foreign Agricultural Market Development and Promotion	103,417
	Forest Service	
10.652	Forestry Research	2,607,621
10.664	Cooperative Forestry Assistance	1,014,640
10.665	Schools and Roads-Grants to States	14,666,100
	Soil Conservation Service	
10.901	Resource Conservation and Development	82,351
10.902	Soil and Water Conservation	3,133
10.903	Soil Survey	10,449

State of Montana
Schedule of Federal Financial Assistance by Federal Agency and Program
For the Fiscal Year Ending June 30, 1995

CFDA #	Federal Assistance Program by Federal Agency	1994 - 1995 Assistance Amount
	Office of International Cooperation and Development	
10.961	International Agricultural Research Program	53,389
	Miscellaneous	
10.999	Other Miscellaneous Non-Major Grants	188,537
	Total for Agency	**$133,985,442**
	Department of Commerce	
	Economic Development Administration	
11.303	Economic Development-Technical Assistance	$102,841
11.305	Economic Development-State and Local Economic Development Planning	38,155
11.307	Special Economic Development and Adjustment Assistance Program	7,064
11.399	Other Miscellaneous Non-Major Grants	43,000
	National Oceanic and Atmospheric Administration	
11.446	Antartic Marine Living Resources	53,862
	National Institute for Standards and Technology	
11.611	Manufacturing Extension Partnership	336,072
	Miscellaneous	
11.999	Other Miscellaneous Non-Major Grants	150,128
	Total for Agency	**$731,122**
	Department of Defense	
	Department of the Army, Office of the Chief Engineers	
12.110	Planning Assistance to States	$5,581
12.199	Other Miscellaneous Non-Major Grants	334,618
	Department of the Navy, Office of the Chief of Naval Research	
12.300	Basic and Applied Scientific Research	227,653
	U.S. Army Materiel Command	
12.431	Basic Scientific Research	185,329
	Department of the Air Force, Materiel Command	
12.800	Air Force Defense Research Sciences Program	219,056
	National Security Agency	
12.901	Mathematical Sciences Grant Program	9,006
	Advanced Research Projects Agency	
12.910	Research and Technology Development	38,167
	Miscellaneous	
12.999	Other Miscellaneous Non-Major Grants	351,543
	Total for Agency	**$1,370,953**
	Department of Housing and Urban Development	
	Community Planning and Development	
14.228	Community Development Block Grant/State's Program	$6,762,414
14.231	Emergency Shelter Grants Program	237,410
14.239	HOME Investment Partnership Program	5,300,215
	Office of Fair Housing and Equal Opportunity	
14.401	Fair Housing Assistance Program-State and Local	194,510
14.408	Fair Housing Incentives Program (FHIP) Administrative Enforcement Initiative	6,414

State of Montana
Schedule of Federal Financial Assistance by Federal Agency and Program
For the Fiscal Year Ending June 30, 1995

CFDA #	Federal Assistance Program by Federal Agency	1994 - 1995 Assistance Amount
	Public and Indian Housing	
14.855	Section 8 Rental Voucher Program	2,240,172
14.856	Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	4,191,287
14.857	Section 8 Rental Certificate Program	7,333,550
	Miscellaneous	
14.999	Other Miscellaneous Non-Major Grants	56,742
	Total for Agency	$26,322,714
Department of the Interior		
	Bureau of Indian Affairs	
15.114	Indian Education-Higher Education Grant Program	$137,176
15.130	Indian Education-Assistance to Schools	15,682
15.143	Training and Technical Assistance-Indian Tribal Governments	64,433
15.145	Indian Grants-Economic Development(Indian Grant Program)	4,716
15.199	Other Miscellaneous Non-Major Grants	29,231
	Bureau of Land Management	
15.200	BLM - Cooperative Assistance Agreement	63,677
15.219	Wildlife Habitat Management Technical Assistance	98,703
15.221	Cooperative Agreements for Research in Public Lands Management	209,749
15.223	Recreation and Cultural Resource Management	35,479
15.224	Cultural Resource Management	11,958
15.225	Recreation Resource Management	5,000
	Office of Surface Mining Reclamation and Enforcement	
15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	755,817
15.252	Abandoned Mine Land Reclamation (AMLR) Program	4,841,183
15.299	Other Miscellaneous Non-Major Grants	329,456
	Bureau of Mines	
15.308	Grants for Mining and Mineral Resources and Research Institutes	515
	Bureau of Reclamation	
15.502	Irrigation Systems Rehabilitation and Betterment	45,470
15.503	Small Reclamation Projects	645,827
15.599	Other Miscellaneous Non-Major Grants	62,513
	U.S. Fish and Wildlife Service	
15.604	Fishery Research-Information	43,615
15.605	Sport Fish Restoration	4,597,971
15.606	Migratory Bird Banding and Data Analysis	15,000
15.607	Environmental Contaminant	12,797
15.608	Fish and Wildlife Management Assistance	76,745
15.610	Wildlife Research Information	295,849
15.611	Wildlife Restoration	4,147,219
15.612	Endangered Species Conservation	138,502
15.699	Other Miscellaneous Non-Major Grants	203,479
	Geological Survey	
15.805	Assistance to State Water Resources Research Institutes	122,722
15.806	National Water Resources Research Program	43,519
15.807	Earthquake Hazards Reduction Program	12,074
15.808	Geological Survey-Research and Data Acquisition	149,141
15.899	Other Miscellaneous Non-Major Grants	7,826
	National Park Service	
15.904	Historic Preservation Fund Grants-In-Aid	533,601
15.914	National Register of Historic Places	24,940
15.915	Technical Preservation Services	236,883
15.916	Outdoor Recreation-Acquisition, Development and Planning	391,240
15.919	Urban Park and Recreation Recovery Program	6,764

State of Montana
Schedule of Federal Financial Assistance by Federal Agency and Program
For the Fiscal Year Ending June 30, 1995

CFDA #	Federal Assistance Program by Federal Agency	1994 - 1995 Assistance Amount
	National Biological Survey	
15.975	Research Information	63,246
15.977	State Partnerships	1,605
	Miscellaneous	
15.999	Other Miscellaneous Grants	26,507,939
	Total for Agency	$44,989,262
Department of Justice		
	Drug Enforcement Administration	
16.001	Law Enforcement Assistance-Narcotics and Dangerous Drugs-Laboratory Analysis	$67,205
	Office of Juvenile Justice and Delinquency Prevention	
16.540	Juvenile Justice and Delinquency Prevention-Allocation to States	149,046
16.548	Title V - Delinquency Prevention Program	58,882
	Bureau of Justice Statistics	
16.550	Criminal Justice Statistics Development	57,248
	National Institute of Justice	
16.560	Justice Research Development and Evaluation Projects Grants	40,711
	Bureau of Justice Assistance	
16.574	Criminal Justice Discretionary Grants	8,197
16.575	Crime Victim Assistance	370,541
16.576	Crime Victim Compensation	185,000
16.579	Drug Control and System Improvement--Formula Grant	1,945,549
16.582	Crime Victim Assistance/Discretionary Grants	69,448
16.588	Violence Against Women Formula Grants	21,065
	Bureau of Prisons	
16.602	Corrections-Research and Evaluation and Policy Formulation	99,489
16.603	Corrections-Technical Assistance/Clearinghouse	14,999
	Miscellaneous	
16.999	Other Miscellaneous Non-Major Grants	36,762
	Total for Agency	$3,124,142
Department of Labor		
	Bureau of Labor Statistics	
17.002	Labor Force Statistics	$635,368
17.005	Compensation and Working Conditions Data	75,639
	Employment and Training Administration	
17.203	Labor Certification for Alien Workers	181,832
17.207	Employment Service	6,134,941
17.225	Unemployment Insurance	11,463,735
17.245	Trade Adjustment Assistance-Workers	3,504,463
17.246	Employment and Training Assistance-Dislocated Workers	3,197,143
17.248	Employment and Training Research and Development Projects	40,000
17.249	Employment Services and Job Training-Pilot and Demonstration Programs	183,223
17.250	Job Training Partnership Act	7,987,755
17.251	Native American Employment and Training Programs	229,790
	Occupational Safety and Health Administration	
17.504	Consultation Agreements	170,726
	Mine Safety and Health Administration	
17.600	Mine Health and Safety Grants	73,237

State of Montana
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CFDA #	Federal Assistance Program by Federal Agency	1994 - 1995 Assistance Amount
	Office of the Secretary, Women's Bureau	
17.700	Women's Special Employment Assistance	5,782
	Office of the Assistant Secretary for Veterans' Employment and Training	
17.801	Disabled Veterans Outreach Program	271,815
17.802	Veterans Employment Program	16,642
17.804	Local Veterans Employment Representative Program	565,457
	Miscellaneous	
17.999	Other Miscellaneous Non-Major Grants	117,699
	Total for Agency	**$34,855,247**
Department of State		
	Bureau of Oceans and International Environmental and Scientific Affairs	
19.204	Fishermen's Guaranty Fund	$4,776
	Miscellaneous	
19.999	Other Miscellaneous Non-Major Grants	107,803
	Total for Agency	**$112,579**
Department of Transportation		
	United States Coast Guard	
20.005	Boating Safety Financial Assistance	$233,845
	Federal Aviation Administration	
20.106	Airport Improvement Program	74,732
	Federal Highway Administration	
20.205	Highway Planning and Construction	137,290,210
20.215	Highway Training and Education	168,360
20.218	Motor Carrier Safety Assistance Program	503,395
20.219	National Recreational Trails Funding Program	44,548
	Federal Railroad Administration	
20.308	Local Rail Freight Assistance	23,432
	Federal Transit Administration	
20.500	Federal Transit Capital Improvement Grants	(51,807)
20.505	Federal Transit Technical Studies Grants	246,174
20.509	Public Transportation for Nonurbanized Areas	669,563
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	330,330
	National Highway Traffic Safety Administration	
20.600	State and Community Highway Safety	1,807,638
	Research and Special Programs Administration	
20.700	Pipeline Safety	22,977
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	68,054
	Total for Agency	**$141,431,451**
Department of the Treasury		
	Miscellaneous	
21.999	Other Miscellaneous Non-Major Grants	$3,799
	Total for Agency	**$3,799**

State of Montana
Schedule of Federal Financial Assistance by Federal Agency and Program
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CFDA #	Federal Assistance Program by Federal Agency	1994 - 1995 Assistance Amount
	Equal Employment Opportunity Commission	
30.002	Employment Discrimination-State and Local Fair Employment Practices Agency Contracts	$131,616
	Total for Agency	$131,616
	General Services Administration	
39.003	Donation of Federal Surplus Personal Property	$879,438
	Total for Agency	$879,438
	National Aeronautics and Space Administration	
43.001	Aerospace Education Services Program	$1,109,131
43.002	Technology Utilization	687,387
	Miscellaneous	
43.999	Other Miscellaneous Nonmajor Grants	112,511
	Total for Agency	$1,909,029
	National Foundation on the Arts and the Humanities	
	National Endowment for the Arts	
45.003	Promotion of the Arts-Arts in Education	$62,162
45.007	Promotion of the Arts-State and Regional Programs	514,892
45.009	Promotion of the Arts-Visual Arts	88,962
45.010	Promotion of the Arts-Expansion Arts	720
45.011	Promotion of the Arts-Presenting	34,076
45.012	Promotion of the Arts-Museums	4,776
45.015	Promotion of the Arts-Folk Arts	9,345
45.023	Promotion of the Arts-Local Programs	63,419
	National Endowment for the Humanities	
45.122	Promotion of the Humanities-Institutional Program and Resources	345,000
45.127	Promotion of the Humanities-Elementary and Secondary Education in the Humanities	20,490
45.129	Promotion of the Humanities-Federal-State Partnership	33,168
45.199	Other Miscellaneous Non-Major Grants	2,497
	Institute of Museum Services	
45.301	Institute of Museum Services	24,857
	Total for Agency	$1,204,364
	National Science Foundation	
47.041	Engineering Grants	$224,686
47.049	Mathematical and Physical Sciences	1,466,105
47.050	Geosciences	196,591
47.051	Biological, Behavioral, and Social Sciences	170,483
47.053	Scientific, Technological, and International Affairs	136,665
47.066	Teacher Preparation and Enhancement	204,740
47.067	Materials Development and Informal Science Education	17,461
47.069	Research Initiation and Improvement	135,687
47.070	Computer and Information Science and Engineering	103,924
47.071	Undergraduate Science, Mathematics, and Engineering Education	62,638
47.072	Young Scholars	18,002
47.073	Science and Technology Center	2,127,517
47.074	Biological Sciences	1,114,294
47.075	Social, Behavioral and Economic Sciences	49,115
47.076	Education and Human Resources	4,528,444
47.077	Academic Research Facilities and Instrumentation	159,886

State of Montana
Schedule of Federal Financial Assistance by Federal Agency and Program
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CFDA #	Federal Assistance Program by Federal Agency	1994 - 1995 Assistance Amount
	Miscellaneous	
47.999	Other Miscellaneous Non-Major Grants	27,024
	Total for Agency	**$10,743,262**
	Small Business Administration	
59.005	Business Development Assistance to Small Business	$10,465
59.009	Procurement Assistance to Small Businesses	66,659
59.037	Small Business Development Center	327,356
59.045	Natural Resource Development	65,673
59.099	Other Miscellaneous Non-Major Grants	405
	Total for Agency	**$470,558**
	Tennessee Valley Authority	
62.005	Tennessee Valley Region-Water and Land Resources	$2,365
	Total for Agency	**$2,365**
	Department of Veterans Affairs	
	Veterans Health Services and Research Administration	
64.005	Grants to States for Construction of State Home Facilities	$1,728,664
64.014	Veterans State Domiciliary Care	163,425
64.015	Veterans State Nursing Home Care	1,058,419
	Veterans Benefits Administration	
64.111	Veterans Educational Assistance	60,979
64.124	All-Volunteer Force Educational Assistance	376
64.125	Vocational and Educational Counseling for Servicemembers and Veterans	2,308
64.199	Other Miscellaneous Non-Major Grants	2,540
	National Cemetery System	
64.203	State Cemetery Grants	26,907
	Miscellaneous	
64.999	Other Miscellaneous Non-Major Grants	308
	Total for Agency	**$3,043,926**
	Environmental Protection Agency	
	Office of Air and Radiation	
66.SS1	Pollution Prevention Grants	$70,636
66.001	Air Pollution Control Program Support	1,299,940
66.032	State Indoor Radon Grants	57,543
	Office of Water	
66.418	Construction Grants for Wastewater Treatment Works	70,134
66.419	Water Pollution Control-State and Interstate Program Support	800,975
66.432	State Public Water System Supervision	856,767
66.435	Water Pollution Control-Lake Restoration Cooperative Agreements	72,400
66.438	Construction Management Assistance	288,095
66.454	Water Quality Management Planning	116,998
66.456	National Estuary Program	2,763
66.458	Capitalization Grants for State Revolving Funds	18,838,902
66.460	Nonpoint Source Implementation Grants	735,507
66.461	Wetlands Protection--State Development Grants	319,586
66.463	National Pollutant Discharge Elimination System Related State Program Grants	166,516
66.465	Wellhead Protection Demonstration Projects	17,214
66.499	Other Miscellaneous Non-Major Grants	53,901

State of Montana
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CFDA #	Federal Assistance Program by Federal Agency	1994 - 1995 Assistance Amount
	Office of Research and Development	
66.500	Environmental Protection-Consolidated Research	671,486
66.502	Pesticides Control Research	127,793
66.505	Water Pollution Control-Research, Development, and Demonstration	21,586
66.506	Safe Drinking Water Research and Demonstration	(4,585)
66.599	Other Miscellaneous Non-Major Grants	61,880
	Office of Pollution Prevention and Toxics	
66.700	Consolidated Pesticide Compliance Monitoring and Program Cooperative Agreements	625,806
66.701	Toxic Substances Compliance Monitoring Program	82,989
	Office of Solid Waste and Emergency Response	
66.801	Hazardous Waste Management State Program Support	496,771
66.802	Hazardous Substance Response Trust Fund	1,599,657
66.804	State Underground Storage Tanks Program	157,979
66.805	Underground Storage Tank Trust Fund Program	833,731
66.808	Solid Waste Management Assistance	22,591
	Office of Prevention, Pesticides and Toxic Substances	
66.900	Pollution Prevention Grants Program	36,571
	Office of Environmental Education	
66.950	Environmental Education and Training Program	126,445
66.951	Environmental Education Grants	19
66.999	Other Miscellaneous Non-Major Grants	8,087
	Total for Agency	**$28,636,683**
	Corporation for National Service	
72.003	Volunteers in Service to America	$1,083
	Total for Agency	**$1,083**
	Department of Energy	
81.004	University-Laboratory Cooperative Program	$29,273
81.041	State Energy Conservation	398,658
81.042	Weatherization Assistance for Low-Income Persons	2,447,442
81.049	Basic Energy Sciences, University and Science Education	13,305
81.052	Energy Conservation for Institutional Buildings	253,894
81.079	Regional Biomass Energy Programs	207,277
81.080	Policy, Planning and Program Development	1,756
81.086	Conservation Research and Development	161,527
81.087	Renewable Energy Research and Development	137,359
81.092	Environmental Restoration	258,235
81.099	Minority Math/Science Leadership Development Recognition	656,883
81.104	Technology Development for Environmental Management	242,252
	Miscellaneous	
81.999	Other Miscellaneous Non-Major Grants	2,081,356
	Total for Agency	**$6,889,217**
	United States Information Agency	
82.002	Educational Exchange-University Lectures (Professors) and Research Scholars	$4,815
	Total for Agency	**$4,815**
	Federal Emergency Management Agency	
83.008	Community-Based Anti-Arson Program	$14,430
83.010	National Fire Academy-Educational Program	1,425
83.503	Civil Defense-State and Local Emergency Management Assistance	577,087

State of Montana
Schedule of Federal Financial Assistance by Federal Agency and Program
For the Fiscal Year Ending June 30, 1995

CFDA #	Federal Assistance Program by Federal Agency	1994 - 1995 Assistance Amount
83.505	State Disaster Preparedness Grants	49,425
83.516	Disaster Assistance	2,532,775
83.521	Earthquake Hazards Reduction Grants	69,902
83.528	Emergency Management Institute-Field Training Program	202,554
83.531	State and Local Emergency Management Assistance	237,315
83.532	Facilities and Equipment	1,294
	Miscellaneous	
83.999	Other Miscellaneous Non-Major Grants	51,791
	Total for Agency	$3,737,998
	Department of Education	
84.002	Adult Education-State-Administered Basic Grant Program	$869,677
84.003	Bilingual Education	52,481
84.004	Desegregation Assistance, Civil Rights Training, and Advisory Services	219,441
84.007	Supplemental Educational Opportunity Grants	707,868
84.008	Alcohol and Drug Abuse Education	3,302
84.009	Education of Handicapped Children in State Operated or Supported Schools	225,314
84.010	Chapter 1 Programs -Local Educational Agencies	24,003,254
84.011	Migrant Education-Basic State Formula Grant Program	493,523
84.012	Educationally Deprived Children-State Administration	400,086
84.013	Chapter 1 Program for Neglected and Delinquent Children	105,929
84.021	Fulbright-Hays Training Grants-Group Projects Abroad	22,862
84.024	Early Education for Children with Disabilities	198,203
84.025	Services for Children with Deaf-Blindness	85,555
84.026	Media and Captioned Services for Individuals with Disabilities	1,979
84.027	Special Education-State Grants	7,766,126
84.029	Special Education Personnel Development and Parent Training	380,843
84.031	Higher Education-Institutional Aid	10,847
84.032	Federal Family Education Loans	92,116,031
84.033	Federal Work-Study Programs	2,103,499
84.034	Public Library Services	414,727
84.035	Interlibrary Cooperation and Resource Sharing	72,094
84.036	Library Education and Training	16,426
84.037	Federal Perkins Loan Cancellations	1,301,542
84.038	Federal Perkins Loan Program - Federal Capital Contributions	22,230,462
84.042	Student Support Services	866,435
84.044	Talent Search	389,189
84.047	Upward Bound	711,802
84.048	Vocational Education-Basic Grants to States	4,546,400
84.049	Vocational Education-Consumer and Homemaking Education	151,983
84.053	Vocational Education-State Councils	149,187
84.055	Higher Education-Cooperative Education	223,696
84.061	Indian Education-Special Programs and Projects	415,734
84.063	Pell Grant Program	16,367,953
84.064	Higher Education-Veterans Education Outreach Program	12
84.066	Educational Opportunity Centers	366,496
84.069	Grants to States for State Student Incentives	210,347
84.073	National Diffusion Network	110,496
84.087	Indian Education-Fellowships for Indian Students	37,217
84.094	Patricia Roberts Harris Fellowships	87,730
84.097	Law School Clinical Experience Program	90,284
84.103	Training for Special Programs Staff and Leadership Personnel	3,372
84.117	Educational Research and Development	46,311
84.123	Law-Related Education	159,219
84.126	Rehabilitation Services-Basic Support	7,367,157
84.128	Rehabilitation Services-Service Projects	272,110
84.129	Rehabilitation Training	61,520
84.133	National Institute on Disability and Rehabilitation Research	566,989
84.144	Migrant Education--Coordination Program	24,448
84.151	Federal, State, and Local Partnerships for Educational Improvement	1,883,435
84.154	Public Library Construction and Technology Enhancement	150,538
84.162	Emergency Immigrant Education	11,298

State of Montana
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CFDA #	Federal Assistance Program by Federal Agency	1994 - 1995 Assistance Amount
84.164	Eisenhower Mathematics and Science Education State Grants	1,202,163
84.168	Dwight D. Eisenhower National Program for Mathematics and Science Education	69,524
84.169	Independent Living Services	296,648
84.170	Jacob K. Javits Fellowships	7,446
84.173	Special Education-Preschool Grants	1,385,111
84.174	Vocational Education-Community Based Organizations	53,999
84.176	Douglas Teacher Scholarships	60,000
84.177	Rehabilitation Services-Independent Living Services for Older Blind Individuals	181,911
84.181	Infants and Toddlers with Disabilities	1,526,784
84.183	Fund for Improvement of Post Secondary Education	72,381
84.185	Robert C. Byrd Honors Scholarships	63,089
84.186	Drug-Free Schools and Communities-State Grants	1,933,197
84.187	Supported Employment Services for Individuals with Severe Handicaps	282,334
84.190	Christa McAuliffe Fellowships	28,369
84.195	Bilingual Education Training Grants	254,657
84.196	Education for Homeless Children and Youth-Grants for State and Local Activities	74,670
84.197	College Library Technology	109,280
84.202	Grants to Institutions to Encourage Minority Participation in Graduate Education	90,695
84.203	Star Schools Program	65,545
84.213	Even Start-State Educational Agencies	297,700
84.214	Even Start - Migrant Education	48,619
84.215	The Secretary's Fund for Innovation in Education	269,875
84.216	Capital Expenses	27,346
84.217	Ronald E. McNair Post-Baccalaureate Achievement	93,733
84.218	State Program Improvement Grants	147,911
84.219	Student Literacy Corps	17,642
84.224	State Grants for Technology-Related Assistance to Individuals with Disabilities	615,494
84.234	Projects with Industry	162,773
84.235	Special Projects and Demonstrations for Providing Vocational Rehabilitation to Individuals with Disabilities	27,845
84.242	National Science Scholars	4,131
84.243	Tech-Prep Education	473,328
84.254	State Literacy Resource Centers	1,501
84.266	Training in Early Childhood Education and Violence Counseling	204,682
84.267	State Postsecondary Review	46,079
84.268	Federal Direct Student Loan	8,147,567
84.276	Goals 2000	256,181
84.998	American Printing House for the Blind	3,574
84.999	Other Miscellaneous Non-Major Grants	143,405
	Total for Agency	**$207,820,618**
	Department of Health and Human Services	
	Administration on Aging	
93.041	Special Programs for the Aging - Programs for Prevention of Abuse	$31,225
93.042	Special Programs for the Aging - Long Term Care Ombudsman	22,272
93.043	Special Programs for the Aging - Disease Prevention	79,611
93.044	Special Programs for the Aging - Grants for Supportive Services	1,460,955
93.045	Special Programs for the Aging - Nutrition Services	2,316,926
93.048	Special Programs for the Aging - Training and Research	89,508
93.050	White House Conference	11,389
	Public Health Service-I	
93.103	Food and Drug Administration-Research	4,061
93.110	Maternal and Child Health Federal Consolidated Programs	154,387
93.113	Biological Response to Environmental Health Hazards	108,255
93.114	Applied Toxicological Research and Testing	231
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	131,801
93.118	Acquired Immunodeficiency Syndrome (AIDS) Activity	381,305
93.119	Grants for Technical Assistance - Mental Health Services	120,516
93.125	Mental Health Planning and Demonstration Projects	222,172
93.130	Primary Care Services-Resource Coordination and Development Cooperative Agreements	84,584
93.150	Projects for Assistance in Transition from Homelessness	298,789
93.170	Community Youth Activity Demonstration Grant	29,249
93.179	State Data Collection - Uniform Alcohol & Drug Abuse Data	(27,419)

State of Montana
Schedule of Federal Financial Assistance by Federal Agency and Program
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CFDA #	Federal Assistance Program by Federal Agency	1994 - 1995 Assistance Amount
93.184	Disabilities Prevention	318,635
93.193	Urban Indian Health Services	11,438
93.197	Childhood Lead Poisoning Prevention Projects--State and Community-Based Childhood Lead Poisoning Preven	300,072
93.199	HIV Home and Community-Based Health Services	9,826
93.217	Family Planning-Services	1,077,003
93.225	National Research Service Awards-Health Services Research Training	3,084
93.226	Health Services Research and Development Grants	17,828
93.228	Indian Health Services-Health Management Development Program	21,450
93.242	Mental Health Research Grants	90,745
93.263	Occupational Safety and Health-Training Grants	55,400
93.268	Childhood Immunization Grants	900,858
93.273	Alcohol Research Programs	125,593
93.283	Centers for Disease Control-Investigations and Technical Assistance	478,820
93.298	Nurse Practitioner and Nurse Midwife Education and Traineeships	205,913
93.333	General Clinical Research Centers	52,427
93.337	Biomedical Research Support	84,706
93.342	Health Professions Student Loans/Loans for Disadvantaged Students	54,502
93.358	Professional Nurse Traineeships	30,678
93.359	Nurse Training Improvement-Special Projects	(44,145)
93.364	Nursing Student Loans	1,199,818
93.371	Biomedical Research Technology	2,971
93.375	Minority Biomedical Research Support	223,863
93.379	Grants for Graduate Training in Family Medicine	79,012
93.390	Academic Research Enhancement Award	41,006
93.395	Cancer Treatment Research	136,050
93.396	Cancer Biology Research	53,641
93.399	Cancer Control	24
	Administration for Children and Families	
93.556	Family Preservation and Support Services	78,898
93.560	Family Support Payments to States-Assistance Payments	43,470,992
93.561	Job Opportunities and Basic Skills Training	3,055,729
93.562	Assistance Payments - Research	40,043
93.563	Child Support Enforcement	6,650,102
93.566	Refugee and Entrant Assistance-State Administered Programs	129,494
93.568	Low-Income Home Energy Assistance	8,847,637
93.569	Community Services Block Grant	2,023,369
93.571	Community Services Block Grant Discretionary Awards-Community Food and Nutrition	7,360
93.572	Emergency Community Services for the Homeless	65,106
93.574	Child Care for Families At-Risk of Welfare Dependency	867,276
93.575	Payments to States for Child Care Assistance	3,698,838
93.576	Refugee and Entrant Assistance-Discretionary Grants	78,980
93.614	Child Development Associate Scholarships	331
93.630	Developmental Disabilities-Basic Support and Advocacy Grants	367,620
93.632	Developmental Disabilities-University Affiliated Facilities	193,195
93.643	Children's Justice Grants to States	34,831
93.645	Child Welfare Services-State Grants	1,100,132
93.656	Temporary Child Care and Crisis Nurseries	308,244
93.658	Foster Care-Title IV-E	9,504,190
93.667	Social Services Block Grant	9,652,347
93.668	Special Programs for the Aging-Title IV-Training, Research and Discretionary Projects and Programs	20,418
93.669	Child Abuse and Neglect State Grants	132,983
93.671	Family Violence Prevention and Services	222,541
93.672	Child Abuse and Neglect State Prevention Grants	38,587
93.673	Grants to States for Planning and Development of Dependent Care Programs	56,088
93.674	Independent Living	174,083
	Health Care Financing Administration	
93.777	State Survey and Certification of Health Care Providers and Suppliers	1,668,083
93.778	Medical Assistance Program	265,244,018
93.779	Health Care Financing Research, Demonstrations, and Evaluations	78,457
	Public Health Service-II	
93.802	Social Security-Disability Insurance	2,897,907
93.807	Supplemental Security Income	13,722

State of Montana
Schedule of Federal Financial Assistance by Federal Agency and Program
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CFDA #	Federal Assistance Program by Federal Agency	1994 - 1995 Assistance Amount
93.821	Biophysics and Physiological Sciences	133,137
93.822	Health Careers Opportunity Program	190,075
93.838	Lung Diseases Research	154,643
93.846	Arthritis, Musculoskeletal and Skin Diseases Research	93,202
93.854	Biological Basis Research in the Neurosciences	307,665
93.855	Allergy and Immunology Transplantation Research	399,249
93.856	Microbiology and Infectious Diseases Research	891,202
93.859	Pharmacological Sciences	288,928
93.862	Genetics Research	35,712
93.863	Cellular and Molecular Basis of Disease Research	207,893
93.867	Vision Research	229,892
93.880	Minority Access to Research Careers	79,262
93.902	Model Comprehensive Drug Abuse Treatment Programs for Critical Populations	(32)
93.912	Rural Health Services Outreach	107,196
93.913	Grants to States for Operations of Offices of Rural Health	49,554
93.917	HIV Care Formula Grants	94,752
93.925	Scholarships for Health Profession Students from Disadvantaged Backgrounds	10,504
93.940	HIV Prevention Activities - Health Department Based	590,980
93.951	Demonstration Grants to States with Respect to Alzheimer's Disease	265,098
93.953	Modification of Trauma Care Component of State EMS Plan	183,457
93.958	Block Grants for Community Health Services	978,020
93.959	Block Grants for Prevention and Treatment of Substance Abuse	2,855,690
93.960	Special Minority Initiatives	28,690
93.977	Preventive Health Services-Sexually Transmitted Diseases Control Grants	215,276
93.988	Cooperative Agreements for State-Based Diabetes Control Programs	78,613
93.991	Preventive Health and Health Services Block Grant	1,115,854
93.994	Maternal and Child Health Services Block Grant	2,670,709
	Miscellaneous	
93.999	Other Miscellaneous Non-Major Grants	242,479
	Total for Agency	**$384,270,336**
Corporation for National and Community Service		
94.001	92-93 Commission	$6,640
94.003	State Commission	158,234
94.005	Learn and Serve America - Higher Education	91,907
94.006	AmeriCorps	818,624
94.008	Summer of Safety	5,160
	Total for Agency	**$1,080,565**
Miscellaneous		
99.999	Other Miscellaneous Non-Major Grants	$966,171
	Total for Agency	**$966,171**
	Grand Total	**$1,038,718,755**

STATE OF MONTANA
NOTES TO THE SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 1995

Note 1. Basis of Accounting

The assistance amounts presented on the accompanying Schedule of Federal Financial Assistance of the State of Montana are generally expenditures or reimbursement revenues recorded on the modified accrual basis. This method recognizes expenditures in the accounting period in which the liability is incurred and revenues when measurable and available. Assistance amounts reported on a basis other than modified accrual are discussed below.

Food Distribution Programs
The amounts reported for Food Distribution programs (CFDA #10.550, 10.553, 10.555, 10.559, 10.567, 10.569, 10.570, and 10.571) represent the dollar value of food commodities distributed to eligible recipients during the year. The amount of funds received to administer the commodities programs may also be included in the reported amount. The U.S. Department of Agriculture provides the current value of the commodities used by the state to compute the amount reported.

Food Stamps Program
The amount reported for the Food Stamps program (CFDA #10.551) represents the face value of the food stamps issued to eligible recipients.

Federal Surplus Personal Property
In accordance with General Service Administration guidelines, the amount presented for Donations of Federal Surplus Personal Property (CFDA #39.003) is valued at 23.3 percent of the original acquisition cost of the property.

Capitalization Grants for State Revolving Funds
The amount presented for the Capitalization Grants for State Revolving Funds (CFDA # 66.458) is comprised of cumulative loans outstanding at June 30, plus the administrative costs expended as of June 30.

Federal Family Education Loans
The amount presented for Federal Family Education Loans (CFDA #84.032) represents the amount of new loans guaranteed, administrative expenses, and loans at risk due to debts and defaults.

Federal Perkins Loan Program - Federal Capital Contributions
The amount reported for the Federal Perkins Loan Program - Federal Capital Contributions (CFDA #84.038) represents the amount of loans outstanding at June 30, plus the administrative costs expended as of June 30.

Note 2. Major Federal Financial Assistance Programs

In accordance with the criteria established by P.L. 98-502 and OMB Circular A-128, a major federal financial assistance program for the State of Montana is defined as assistance to the state exceeding $4 million for any federal program in the fiscal year ended June 30.

The amount reported for CFDA #15.999 includes $ 25,847,747 for the mineral leasing program from the Bureau of Land Management. The mineral leasing program, which does not have a specific CFDA number, was audited as major federal financial assistance.

Note 3. CFDA #

The CFDA # assigned for each federal program listed in the Schedule of Federal Financial Assistance was based upon agency agreements with the federal government and the Catalogs of Federal Domestic Assistance in effect during the audit period.

Programs not assigned a CFDA # in the Catalog of Federal Domestic Assistance were assigned a CFDA # in the format **.*99 or **.999. The first two digits represent the federal agency and the third digit represents the division within the federal agency. In cases where the federal agency does not have a designated CFDA#, the program was assigned a CFDA# in the format 99.999.

Note 4. Cooperative Forestry Assistance Program

The Montana Department of State Lands received Federal Excess Personal Property (FEPP) through the Cooperative Forestry Assistance program (CFDA #10.664) valued at $ 5,838,168 in fiscal year 1994-95. The department's perpetual inventory system accounts for the FEPP based on the original acquisition cost to the federal government. Therefore the records do not reflect the current market value of the property. The department maintains property inventory records for capital and sensitive federal excess equipment, which it reconciles with the USDA, Forest Service every two years. The balance of FEPP on the department's inventory records at June 30, 1995 was $ 14,774,525.

The federal government retains title to the property. The Department of State Lands coordinates disposal of FEPP with the U.S. Forest Service and General Services Administration. All proceeds from the sales go to the federal government. The value of FEPP related to this program is not reflected in the accompanying Schedule of Federal Financial Assistance.

Note 5. Department of Defense Grants

The U.S. Department of Defense obtained a legal opinion that the federal Single Audit Act does not apply to National Guard funds. Therefore, the accompanying Schedule of Federal Financial Assistance does not include any assistance received by the State of Montana from U.S. Department of Defense, Air and Army National Guard.

Note 6. Books for the Blind and Physically Handicapped

The Montana State Library receives "talking book" machines, books, and cassettes from the federal government under the Blind and Physically Handicapped program (CFDA #42.001). These items are then distributed to provide library services to blind and physically handicapped individuals. The federal government retains title to these items. The approximate value of the items in inventory (not distributed to individuals) at June 30, 1995 was $ 1,470,865. The accompanying Schedule of Federal Financial Assistance does not include this amount.

Note 7. Subgrants

Federal assistance subgranted from one Montana state agency to another Montana state agency is excluded from the Schedule of Federal Financial Assistance.

Federal assistance received from nonstate sources which are considered subgrants by the awarding agency are treated as direct grants to the state and are reported on the Schedule of Federal Financial Assistance.

INDEPENDENT AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE BASED ON AN AUDIT OF GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the general purpose financial statements of the state of Montana as of and for the fiscal year ended June 30, 1995, and have issued our report thereon dated October 18, 1995.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

The management of the state of Montana is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the general purpose financial statements of the state of Montana, for the year ended June 30, 1995, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

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We noted certain matters involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the state's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements.

Our audit disclosed a reportable condition concerning internal controls at an agency. The condition relates to inappropriate design and incomplete implementation of control policies and procedures in several of the internal control structure elements. This matter is discussed in issues 5-1 through 5-8 in the Federal Issues, Recommendations, and Responses by State Agency section of this document.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable condition described above is a material weakness. This condition was considered in determining the nature, timing, and extent of procedures to be performed in our audit of the general purpose financial statements of the state of Montana for the fiscal year ended June 30, 1995.

We also noted other matters involving the internal control structure and its operation that we reported to the management of the state of Montana during the course of our audit work.

This report is intended for the information of the audit committee, management, and the Montana State Legislature. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

October 18, 1995

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE BASED ON AN AUDIT OF GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the general purpose financial statements of the state of Montana as of and for the fiscal year ended June 30, 1995, and have issued our report thereon dated October 18, 1995.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the state of Montana is the responsibility of the state of Montana's management. As part of obtaining reasonable assurance about whether the general purpose financial statements are free of material misstatement, we performed tests of the state of Montana's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the general purpose financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance consist of failures to follow requirements, or violations of prohibitions, contained in statutes, laws, regulations, contracts, or grants, that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the general purpose financial statements. The results of our tests of compliance disclosed an instance of material noncompliance regarding appropriation laws at an agency. The agency charged $1.8 million of expenditures to the wrong fund.

We considered the material instance of noncompliance in forming our opinion on whether the state of Montana's general purpose financial statements for the fiscal year ended June 30, 1995 are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated October 18, 1995 on those general purpose financial statements.

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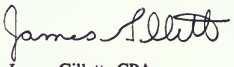
Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, the state complied, in all material respects, with the provisions referred to above.

The results of our tests disclosed immaterial instances of noncompliance with the above requirements that we reported to the management of the state of Montana during the course of our audit work.

This report is intended for the information of the audit committee, management, and the Montana State Legislature. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Respectfully submitted,



James Gillett, CPA
Deputy Legislative Auditor

October 18, 1995

FY94 Financial Section

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INDEPENDENT AUDITOR'S REPORT ON THE GENERAL PURPOSE FINANCIAL STATEMENTS AND THE SUPPLEMENTARY SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying general purpose financial statements of the state of Montana, as of June 30, 1994, and for the year then ended, on pages B-4 to B-54. These general purpose financial statements are the responsibility of the state of Montana's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Montana Housing Authority, a component unit of the state of Montana. These financial statements, as they relate to the component unit proprietary fund type, are included within the general purpose financial statements as a discrete presentation on pages B-12 through B-15. We did not audit the financial statements of the Office of Public Instruction which statements reflect total revenues/transfers-in and expenditures/transfers-out of 15.6 percent and 27.5 percent, respectively, of the related Special Revenue Fund and immaterial amounts in the related General Fund and Internal Service Fund. We did not audit the financial statements of the Montana State Lottery, which statements reflect total operating revenues, expenditures, and transfers-out of 36.3 percent, 37 percent, and 38 percent, respectively, in the Enterprise Fund. These statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Montana Housing Authority, Office of Public Instruction, and Montana State Lottery is based solely on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

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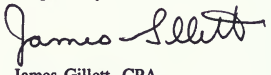
In our opinion, based on our audit and the report of other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the state of Montana, as of June 30, 1994, and the results of its operations and the cash flows of its proprietary and nonexpendable trust fund types for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 2, 1994 on our consideration of the state of Montana's internal control structure and a report dated December 2, 1994 on its compliance with laws and regulations.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of the state of Montana taken as a whole. The accompanying Schedule of Federal Financial Assistance on pages B-55 through B-70 is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. The information in that schedule has been subjected to auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

Respectfully submitted,



James Gillett, CPA
Deputy Legislative Auditor

December 2, 1994

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STATE OF MONTANA
Combined Balance Sheet
All Fund Types and Account Groups
June 30, 1994
(Expressed in Thousands)

ASSETS/OTHER DEBITS	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPES	
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	ENTERPRISE	INTERNAL SERVICE
Assets:						
Cash/Cash Equivalents (Note 4)	$ 38,475	$ 256,206	$ 35,815	$ 29,427	$ 19,279	$ 31,306
Receivables (Net of Uncollectibles)	46,544	73,010	6,232	75	6,042	506
Interfund Loans Receivable (Note 13)	12,644	28,957	-	-	-	30
Due from Other Governments	18	120,328	-	-	-	6
Due from Primary Government (Note 13)	-	-	-	-	-	-
Due from Component Units (Note 13)	663	416	22	-	5	676
Due from Other Funds (Note 13)	32,973	37,823	326	284	268	3,716
Inventories	2,169	21,603	-	-	9,962	2,053
Equity in Pooled Investments (Note 4)	-	-	-	-	-	-
Long-Term Loans/Notes Receivable	16	23,799	34,453	1	29,245	3
Advances to Other Funds (Note 13)	120	20	-	-	-	-
Investments (Note 4)	-	10,029	1,689	-	13,718	22,084
Deferred Losses	-	-	-	-	-	-
Land	-	-	-	-	800	236
Buildings/Improvements	-	-	-	-	4,275	63
Equipment	-	-	-	-	5,109	114,562
Other Fixed Assets	-	-	-	-	8	3
Construction in Progress	-	-	-	-	-	1,125
Accumulated Depreciation	-	-	-	-	(4,986)	(64,955)
Intangible Assets	-	-	-	-	67	147
Deferred Charges	-	-	-	-	1,283	-
Other Assets	1,276	2,163	45	3	3,252	270
Other Debits:						
Amount Available - Debt Service Funds	-	-	-	-	-	-
Amount to be Provided from Long-Term Loans	-	-	-	-	-	-
Resources to be Provided in Future Years	-	-	-	-	-	-
TOTAL ASSETS/OTHER DEBITS	$ 134,898	$ 574,354	$ 78,582	$ 29,790	$ 88,327	$ 111,831
LIABILITIES/EQUITY/OTHER CREDITS						
Liabilities:						
Accounts Payable	$ 63,152	$ 110,695	$ 5,417	$ 968	$ 3,334	$ 4,701
Lottery Prizes Payable	-	-	-	-	2,090	-
Interfund Loans Payable (Note 13)	-	37,091	-	1,411	-	280
Advances from Other Funds (Note 13)	-	226	-	-	104	-
Due to Other Governments	1	29,610	-	-	9	-
Due to Primary Government (Note 13)	-	-	-	-	-	-
Due to Component Units (Note 13)	476	18,051	-	-	-	6
Due to Other Funds (Note 13)	18,611	41,857	1,672	20	4,620	3,120
Deferred Revenue	11,542	39,610	1,115	-	2,955	122
Deferred Gains	-	-	-	-	-	-
Lease/Installment Purchase Payable (Note 11)	-	-	-	-	113	2,170
Bonds/Notes Payable (Net) (Note 12)	-	-	-	-	44,970	13
Property Held in Trust	700	953	-	-	2,208	249
Compensated Absences Payable (Note 1)	-	-	-	-	768	2,333
Estimated Insurance Claims (Notes 7 and 9)	-	-	-	-	1,676	26,738
Arbitrage Rebate Tax Payable	-	-	-	-	295	-
Other Liabilities	1	8	-	-	-	-
Total Liabilities	94,483	278,101	8,204	2,399	63,142	39,732
Equity/Other Credits:						
Investment in General Fixed/Plant Assets	-	-	-	-	-	-
Contributed Capital (Note 17)	-	-	-	-	3,252	5,627
Retained Earnings:						
Reserved (Note 15)	-	-	-	-	2,925	24,500
Unreserved	-	-	-	-	19,008	41,972
Fund Balances:						
Reserved for Encumbrances	5,517	29,524	-	-	-	-
Reserved for Inventories	2,169	21,603	-	-	-	-
Reserved for Advances to Other Funds (Note 13)	120	20	-	-	-	-
Reserved for Long-Term Loans	16	23,799	34,453	1	-	-
Reserved for Debt Service	-	-	35,925	-	-	-
Reserved for Trusts/Endowments (Note 15)	-	-	-	-	-	-
Reserved for Retirement Systems	-	-	-	-	-	-
Unreserved, undesignated	32,593	221,307	-	27,390	-	-
Total Equity/Other Credits	40,415	296,253	70,378	27,391	25,185	72,099
TOTAL LIABILITIES/EQUITY/OTHER CREDITS	$ 134,898	$ 574,354	$ 78,582	$ 29,790	$ 88,327	$ 111,831

The notes to the financial statements are an integral part of this statement.

FIDUCIARY FUND TYPES	ACCOUNT GROUPS		COMPONENT UNITS		
TRUST AND AGENCY	GENERAL FIXED ASSETS	GENERAL LONG-TERM OBLIGATIONS	PROPRIETARY FUND TYPES	PENSION TRUST FUND	HIGHER EDUCATION FUNDS
$ 717,205	$ -	$ -	$ 46,873	$ 47,988	$ 70,426
58,141	-	-	64,090	23,317	36,624
100	-	-	-	-	1,250
122	-	-	-	-	3,224
-	-	-	18,141	178	904
1,455	-	-	-	-	-
31,219	-	-	1,833	288	15,612
-	-	-	34	-	3,789
577,797	-	-	-	257,636	332
81,872	-	-	303,539	-	171
190	-	-	-	-	-
1,889,848	-	-	538,432	671,496	45,407
1,792	-	-	-	-	-
49,424	56,536	-	-	35	12,682
277	241,266	-	-	158	293,797
135	91,061	-	2,598	159	109,490
-	44,116	-	-	-	67,544
-	4,149	-	-	-	9,376
(203)	-	-	(898)	(171)	-
3	-	-	19	118	2,173
-	-	-	9,862	-	993
54,505	-	-	8,559	-	3,712
-	-	35,925	-	-	-
-	-	34,453	-	-	-
-	-	257,523	-	-	-
$ 3,463,882	$ 437,128	$ 327,901	$ 993,082	$ 1,001,202	$ 677,506
$ 40,544	$ -	$ -	$ 7,018	$ 444	$ 21,695
-	-	-	-	-	-
2,949	-	-	-	-	1,250
-	-	-	-	-	-
263,708	-	-	-	3	390
-	-	-	1,073	119	2,045
690	-	-	-	-	-
39,238	-	-	1,791	6	13,407
38	-	-	24,090	-	9,646
377	-	-	-	755	-
-	-	1,527	-	105	3,088
-	-	288,335	619,392	-	113,655
591,414	-	-	15,808	76	4,662
69	-	37,887	659	30	22,579
-	-	-	712,709	-	-
-	-	152	269	-	-
3,987	-	-	-	-	-
943,014	-	327,901	1,382,809	1,538	192,417
-	437,128	-	-	-	415,669
-	-	-	12,000	-	-
-	-	-	83,797	-	-
-	-	-	(485,524)	-	-
-	-	-	-	-	1,032
-	-	-	-	-	-
-	-	-	-	-	-
3,459	-	-	-	-	-
-	-	-	-	-	4,941
980,814	-	-	-	-	27,835
1,436,775	-	-	-	999,664	-
99,820	-	-	-	-	35,612
2,520,868	437,128	-	(389,727)	999,664	485,089
$ 3,463,882	$ 437,128	$ 327,901	$ 993,082	$ 1,001,202	$ 677,506

STATE OF MONTANA
Combined Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Fund Types and Expendable Trust Funds
For the Fiscal Year Ended June 30, 1994
(Expressed in Thousands)

	GOVERNMENTAL FUND TYPES				FIDUCIARY FUND TYPE
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	EXPENDABLE TRUST
REVENUES:					
Licenses/Permits	$ 22,659	$ 76,193	$ -	$ -	$ -
Taxes:					
Gas/Oil/Coal Production	23,116	46,377	398	-	-
Individual Income	207,545	108,662	29,952	-	-
Corporate Income	37,698	25,155	6,019	-	-
Property	348	209,346	-	-	-
Fuel	-	157,732	-	-	-
Payroll	-	41,512	-	-	-
Other (Note 1)	53,975	65,840	10,198	2,152	-
Charges for Services/Fines/Forfeits	22,868	35,480	213	311	97
Investment Earnings	11,980	4,264	3,520	229	7,239
Sale of Documents/Mdse./Property	230	17,574	2,101	-	-
Rentals/Leases/Royalties	98	223	-	-	11
Contributions/Premiums	-	3,617	-	-	52,679
Grants/Contracts/Donations	-	7,782	-	-	56
Federal	539	683,366	96	-	18,967
Federal Indirect Cost Recoveries	109	2,235	-	-	-
Other Revenues	427	1,262	612	-	-
Total Revenues	381,592	1,486,620	53,109	2,692	79,049
Intrafund Revenues	(99)	(11,238)	(83)	-	-
Net Revenues	381,493	1,475,382	53,026	2,692	79,049
EXPENDITURES:					
Current:					
General Government	61,662	51,951	4	-	-
Public Safety/Corrections	49,228	60,798	-	-	-
Transportation	252	297,325	-	-	-
Health/Social Services	187,570	423,959	-	-	-
Education/Cultural	60,125	426,078	-	-	103
Resource Development/Recreation	11,374	57,506	19	27	72
Economic Development/Assistance	1,095	99,129	-	-	72,599
Debt Service:					
Principal Retirement	650	253	17,210	-	-
Interest/Fiscal Charges	2,360	395	13,585	-	-
Capital Outlay	3,879	23,612	-	5,083	360
Total Expenditures	378,195	1,441,006	30,818	5,110	73,134
Intrafund Expenditures	(99)	(11,238)	(83)	-	-
Net Expenditures	378,096	1,429,768	30,735	5,110	73,134
Excess of Rev. Over (Under) Expend.	3,397	45,614	22,291	(2,418)	5,915
OTHER FINANCING SOURCES (USES):					
Loan Proceeds	-	10,618	-	-	-
Bond Proceeds	300	749	-	23,791	-
Inception of Lease/Installment Contract	338	32	-	-	-
General Fixed Asset Sale Proceeds	82	26	-	-	-
Operating Transfers In (Note 13)	97,139	77,010	34,461	1,591	-
Transfers from Component Units (Note 13)	373	3,972	439	-	-
Operating Transfers Out (Note 13)	(14,263)	(25,548)	(50,802)	(1,963)	(7)
Transfers to Component Units (Note 13)	(98,448)	(60,016)	-	-	-
Total Other Financing Sources (Uses)	(14,479)	6,843	(15,902)	23,419	(7)
Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses	(11,082)	52,457	6,389	21,001	5,908
FUND BALANCES - JULY 1 - as Previously Reported	50,395	249,260	60,826	6,390	94,013
Prior Period Adjustments (Note 3)	(67)	(317)	-	-	-
FUND BALANCES - July 1 - As Restated	50,328	248,943	60,826	6,390	94,013
Increase (Decrease) in Inventories	(171)	2,658	-	-	-
Residual Equity Transfers (Note 13)	1,340	(7,805)	3,163	-	3,358
FUND BALANCES - JUNE 30	$ 40,415	$ 296,253	$ 70,378	$ 27,391	$ 103,279

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Combined Statement of Revenues, Expenditures, Other Financing Sources (Uses) and
Reconciliation of Budget and Actual (Budgetary Basis) to GAAP Basis - Unreserved Fund Balance
General and Special Revenue Fund Types
For the Fiscal Year Ended June 30, 1994
(Expressed in Thousands)

	GENERAL FUND			SPECIAL REVENUE FUNDS		
	BUDGET	ACTUAL	VARIANCE - FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE - FAVORABLE (UNFAVORABLE)
REVENUES:						
Licenses/Permits	$ 21,501	$ 22,659	$ 1,158	$ 69,800	$ 76,193	$ 6,393
Taxes:						
Gas/Oil/Coal Production	27,937	23,116	(4,821)	48,864	46,377	(2,487)
Individual Income	216,629	207,545	(9,084)	115,792	108,662	(7,130)
Corporate Income	40,410	37,698	(2,712)	23,025	25,155	2,130
Property	360	348	(12)	170,188	209,346	39,158
Fuel	-	-	-	135,482	157,732	22,250
Payroll	-	-	-	41,097	41,512	415
Other	54,465	53,975	(490)	65,908	65,840	(68)
Charges for Services/Fines/Forfeits	19,437	22,868	3,431	38,151	35,480	(2,671)
Investment Earnings	10,250	11,980	1,730	3,954	4,264	310
Sale of Documents/Merchandise/Property	157	230	73	27,286	17,574	(9,712)
Rentals/Leases/Royalties	80	98	18	319	223	(96)
Contributions/Premiums	-	-	-	3,453	3,617	164
Grants/Contracts/Donations	-	-	-	10,703	7,782	(2,921)
Federal	205	539	334	786,856	683,366	(103,490)
Federal Indirect Cost Recoveries	52	109	57	1,885	2,235	350
Other Revenues	364	427	63	1,234	1,262	28
Total Revenues	391,847	381,592	(10,255)	1,543,997	1,486,620	(57,377)
EXPENDITURES:						
Current:						
General Government	62,987	60,404	2,583	101,163	52,203	48,960
Public Safety/Corrections	50,167	49,424	743	67,322	61,286	6,036
Transportation	260	231	29	323,937	299,562	24,375
Health/Social Services	199,038	193,745	5,293	470,388	436,631	33,757
Education/Cultural	64,176	60,223	3,953	441,810	427,276	14,534
Resource Development/Recreation	11,641	11,337	304	108,778	55,456	53,322
Economic Development/Assistance	2,512	1,129	1,383	121,359	100,434	20,925
Debt Service:						
Principal Retirement	652	652	-	261	261	-
Interest/Fiscal Charges	2,340	2,340	-	538	395	143
Capital Outlay	3,844	4,066	(222)	23,053	23,387	(334)
Total Expenditures	397,617	383,551	14,066	1,658,609	1,456,891	201,718
Excess of Rev. Over (Under) Expend.	(5,770)	(1,959)	3,811	(114,612)	29,729	144,341
OTHER FINANCING SOURCES (USES):						
Loan Proceeds	-	-	-	600	10,615	10,015
Bond Proceeds	133	300	167	750	749	(1)
General Fixed Asset Sale Proceeds	60	82	22	24	26	2
Operating Transfers In	104,217	96,959	(7,258)	133,265	122,742	(10,523)
Transfers from Component Units	373	373	-	3,972	3,972	-
Operating Transfers Out	(120,325)	(14,457)	105,868	(66,189)	(72,049)	(5,860)
Transfers to Component Units	(98,448)	(98,448)	-	(60,016)	(60,016)	-
Total Other Financings Sources (Uses)	(113,990)	(15,191)	98,799	12,406	6,039	(6,367)
Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses (Budgetary Basis)	(119,760)	(17,150)	102,610	(102,206)	35,768	137,974
RECONCILIATION OF BUDGETARY/GAAP REPORTING:						
1. Adjust expenditures for encumbrances.	-	3,771	3,771	-	3,854	3,854
2. Adjustments for appropriated loans/ other nonbudgeted activity.	-	2,297	2,297	-	12,835	12,835
3. Intrafund elimination - Transfers In	-	(99)	(99)	-	(54,102)	(54,102)
4. Intrafund elimination - Transfers Out	-	99	99	-	54,102	54,102
Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses (GAAP Basis)	(119,760)	(11,082)	108,678	(102,206)	52,457	154,663
UNRESERVED FUND BALANCES - JULY 1	41,471	41,471	-	181,560	181,560	-
Residual Equity Transfers (Note 13)	1,340	1,340	-	(7,804)	(7,805)	(1)
Prior Period Adjustments (Note 3)	-	(67)	(67)	-	(317)	(317)
Decrease (Increase):						
Encumbrances Reserve	-	(4,969)	(4,969)	-	(6,440)	(6,440)
Advances to Other Funds Reserve	-	5,900	5,900	-	-	-
Long-Term Loans Reserve	-	-	-	-	(2,058)	(2,058)
Trusts/Endowments Reserve	-	-	-	-	3,910	3,910
UNRESERVED FUND BALANCES - JUNE 30	$ (76,949)	$ 32,593	$ 109,542	$ 71,550	$ 221,307	$ 149,757

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balances
All Proprietary Fund Types and Similar Trust Funds
For the Fiscal Year Ended June 30, 1994
(Expressed in Thousands)

	PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPES		COMPONENT UNITS	
	ENTERPRISE	INTERNAL SERVICE	NONEXPENDABLE TRUST	PENSION TRUST	PROPRIETARY FUND TYPES	PENSION TRUST FUND
OPERATING REVENUES:						
Charges for Services	$ 85,252	$ 55,614	$ 6,958	$ -	$ 298	$ -
Investment Earnings	3,451	3,265	79,136	105,627	63,405	73,015
Contributions/Premiums	2,389	60,939	-	110,064	181,626	77,955
Taxes	10,304	-	23,640	-	-	-
Rentals/Leases/Royalties	-	-	22,635	-	-	-
Grants/Contracts/Donations	-	-	946	-	-	-
Other Operating Revenues	2,286	375	38	-	94	-
Total Operating Revenues	103,682	120,193	133,353	215,691	245,423	150,970
Intrafund Revenues	(38)	(152)	-	(44)	-	-
Net Operating Revenues	103,644	120,041	133,353	215,647	245,423	150,970
OPERATING EXPENSES:						
Personal Services	8,673	20,002	-	596	7,424	327
Contractual Services	9,725	8,483	-	360	4,458	149
Supplies/Materials	30,252	10,584	-	16	260	18
Expendable Equipment	270	785	-	-	88	-
Benefits	2,492	50,557	-	90,734	154,894	70,701
Refunds	-	-	-	8,857	-	4,155
Depreciation	463	7,763	-	23	281	20
Amortization	7	152	-	1	9	20
Utilities/Rent	978	4,384	-	34	169	45
Communications	1,028	8,011	-	52	438	37
Travel	209	315	-	15	153	8
Repair/Maintenance	416	3,955	-	7	117	12
Lottery Prize Payments	18,148	-	-	-	-	-
Interest Expense	2,627	171	-	-	48,616	10
Arbitrage Rebate Tax	261	18	-	-	121	-
Other Operating Expenses	870	1,149	2	121	236	7
Total Operating Expenses	76,419	116,329	2	100,816	217,264	75,509
Intrafund Expenses	(38)	(152)	-	(44)	-	-
Net Operating Expenses	76,381	116,177	2	100,772	217,264	75,509
Operating Income (Loss)	27,263	3,864	133,351	114,875	28,159	75,461
NONOPERATING REVENUES (EXPENSES):						
Gain (Loss) Sale of Fixed Assets	4	25	-	-	-	(1)
Increase (Decrease) Value of Livestock	(369)	-	-	-	-	-
Federal Indirect Cost Recoveries	-	2,654	-	-	-	-
Total Nonoperating Revenues (Expenses)	(365)	2,679	-	-	-	(1)
Income (Loss) Before Operating Transfers	26,898	6,543	133,351	114,875	28,159	75,460
Operating Transfers In (Note 13)	925	1,590	-	-	-	-
Transfers from Primary Government (Note 13)	-	-	-	-	42,167	-
Operating Transfers Out (Note 13)	(24,616)	(51)	(98,319)	-	-	-
Transfers to Primary Government (Note 13)	-	-	-	-	(4,784)	-
Income (Loss) Before Extraordinary Items	3,207	8,082	35,032	114,875	65,542	75,460
Extraordinary Loss on Bond Redemption	-	-	-	-	(701)	-
Net Income (Loss)	3,207	8,082	35,032	114,875	64,841	75,460
RETAINED EARNINGS/FUND BALANCES - July 1 As Previously Reported	18,791	59,437	945,775	1,321,817	(466,578)	924,204
Prior Period Adjustments (Note 3)	(15)	(960)	-	83	10	-
RETAINED EARNINGS/FUND BALANCES - July 1 As Restated	18,776	58,477	945,775	1,321,900	(466,568)	924,204
Residual Equity Transfers (Note 13)	(50)	(87)	7	-	-	-
RETAINED EARNINGS/FUND BALANCES - JUNE 30	$ 21,933	$ 66,472	$ 980,814	$ 1,436,775	$ (401,727)	$ 999,664

The notes to the financial statements are an integral part of this statement.

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STATE OF MONTANA
Combined Statement of Cash Flows
All Proprietary Fund Types and Nonexpendable Trust Funds
For the Fiscal Year Ended June 30, 1994
(Expressed in Thousands)

	PROPRIETARY FUND TYPES			COMPONENT UNITS
	ENTERPRISE	INTERNAL SERVICE	NONEXPENDABLE TRUST	PROPRIETARY FUND TYPES
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts for Sales and Services	$ 89,254	$ 118,003	$ 7,233	$ 189,119
Collections for Principal And Interest on Loans	3,214	-	-	128,906
Cash Payments for Loans	(6,914)	-	-	(18,001)
Payments to Suppliers for Goods and Services	(45,524)	(35,628)	-	(6,076)
Payments to Employees	(8,425)	(19,802)	-	(7,141)
Grant Receipts	-	2,686	-	-
Cash Payments for Claims	(2,385)	(48,347)	-	(103,987)
Collections of Notes Receivable	-	-	-	2
Cash Payments for Prizes	(18,739)	-	-	-
Transfers from Other Funds	-	96	-	-
Donations Received	-	-	967	-
Scholarship/Fellowship Payments	-	-	(1)	-
Other Operating Revenues	1,161	330	38	61
Net Cash Provided by (Used for) Operating Activities	11,642	17,338	8,237	182,883
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Payment of Principal and Interest on Bonds and Notes	(11,546)	-	-	(188,876)
Proceeds from Issuance of Bonds and Notes	13,017	-	-	107,040
Payment of Bond Issuance Costs	-	-	-	(1,269)
Collection of Taxes	10,304	-	23,735	-
Transfers to Other Funds	(25,284)	(53)	(96,585)	-
Transfers to Primary Government	-	-	-	(4,833)
Transfers from Other Funds	925	1,201	82	-
Transfers from Primary Government	-	-	-	27,167
Cash Payments for Loans	-	30	-	(28,266)
Collections for Principal And Interest on Loans	-	-	-	43,173
Proceeds from Interfund Loans	(35)	269	2,948	-
Interfund Loan Payments	-	(330)	(100)	-
Residual Equity Transfers to Other Funds	(9)	(87)	-	-
Residual Equity Transfers from Other Funds	-	-	7	-
Contributed Capital Transfers from Other Funds	-	78	-	-
Net Cash Provided by (Used for) Noncapital Financing Activities	(12,628)	1,108	(69,913)	(45,864)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of Fixed Assets	(432)	(10,025)	-	(1,033)
Proceeds from Sale of Fixed Assets	1	1,020	-	3
Principal and Interest Payments on Bonds and Notes	(2)	(1,706)	-	-
Net Cash Used for Capital and Related Financing Activities	(433)	(10,711)	-	(1,030)
CASH FLOW FROM INVESTING ACTIVITIES:				
Purchase of Investments	(10,580)	(11,354)	(416,988)	(1,855,533)
Proceeds from Sales or Maturities of Investments	13,286	2,985	354,191	1,697,621
Interest and Dividends on Investments	3,321	1,673	75,970	26,460
Arbitrage Rebate Tax	(138)	(18)	-	-
Collections for Principal and Interest on Loans	-	-	13,880	-
Cash Payments for Loans	-	-	(32,811)	-
Collection of Rents/Leases/Royalties	-	-	22,638	-
Net Cash Provided by (Used for) Investing Activities	5,889	(6,714)	16,880	(131,452)
Net Increase (Decrease) in Cash and Cash Equivalents	4,470	1,021	(44,796)	4,537
Cash and Cash Equivalents, July 1	14,809	30,285	119,172	42,336
CASH AND CASH EQUIVALENTS, JUNE 30	$ 19,279	$ 31,306	$ 74,376	$ 46,873

The notes to the financial statements are an integral part of this statement.

	PROPRIETARY FUND TYPES			COMPONENT UNITS
	ENTERPRISE	INTERNAL SERVICE	NONEXPENDABLE TRUST	PROPRIETARY FUND TYPES
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating Income (Loss)	$ 27,263	$ 3,864	$ 133,351	$ 28,159
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:				
Depreciation	463	7,761	-	281
Amortization	7	153	-	9
Taxes	(10,304)	-	(23,640)	-
Interest Expense	2,626	170	-	48,616
Interest on Investments	(3,449)	(1,651)	(79,136)	(34,280)
Federal Indirect Cost Recoveries	-	2,654	-	-
Arbitrage Rebate Tax	260	18	-	87
Operating Transfers in	-	95	-	-
Rentals/Leases/Royalties	-	-	(22,635)	-
Change in Assets and Liabilities:				
Decr (Incr) in Accounts Receivable	(291)	(171)	-	(15,538)
Decr (Incr) in Due From Other Governments	-	(2)	-	-
Decr (Incr) in Due From Other Funds	34	91	297	1,059
Decr (Incr) in Due From Component Units	(5)	(676)	-	-
Decr (Incr) in Inventories	(258)	(149)	-	34
Decr (Incr) in Intangible Assets	(8)	-	-	-
Decr (Incr) in Long-term Loans/Notes Receivable	(3,700)	-	-	80,685
Decr (Incr) in Other Assets	(1,288)	(28)	-	3,560
Incr (Decr) in Accounts Payable	(963)	2,053	-	150
Incr (Decr) in Lottery Prizes Payable	63	-	-	-
Incr (Decr) in Due to Other Funds	100	595	-	(658)
Incr (Decr) in Due to Primary Government	-	-	-	790
Incr (Decr) in Due to Component Units	-	7	-	-
Incr (Decr) in Deferred Revenue	70	13	-	24,090
Incr (Decr) in Bonds/Notes Payable	117	13	-	-
Incr (Decr) in Property Held in Trust	595	178	-	(5,237)
Incr (Decr) in Compensated Absences Payable	98	219	-	126
Incr (Decr) in Estimated Insurance Claims	212	2,131	-	50,914
Incr (Decr) in Arbitrage Rebate Tax Payable	-	-	-	34
Net Cash Provided by (Used For) Operating Activities	$ 11,642	$ 17,338	$ 8,237	$ 182,881
SCHEDULE OF NONCASH TRANSACTIONS:				
Fixed Asset Acquisitions from Capital Leases	$ 113	$ 1,156	$ -	$ -
Asset Acquisitions from Contributed Capital	35	1,722	-	-
Transfers from Other Funds	(5)	(1,814)	-	(2)
Asset Disposals from Contributed Capital				
Total Noncash Transactions	$ 143	$ 1,064	$ -	$ (2)
RECONCILIATION FOR NONEXPENDABLE TRUST:				
Cash and Cash Equivalents, June 30			$ 74,376	
Cash and Cash Equivalents, Expendable Trust, Pension Trust and Agency			642,829	
Cash and Cash Equivalents per Combined Balance Sheet, Trust and Agency			$ 717,205	

STATE OF MONTANA
Combining Balance Sheet
Component Units - Proprietary Fund Types
June 30, 1994
(Expressed in Thousands)

	HOUSING AUTHORITY	HEALTH FACILITIES AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)	TOTALS
ASSETS:					
Cash/Cash Equivalents	$ 2,584	$ 551	$ 39,323	$ 4,415	$ 46,873
Receivables (Net)	4,469	15	59,237	369	64,090
Due from Primary Government (Note 13)	-	2	156	17,983	18,141
Due from Other Funds (Note 13)	-	-	1,833	-	1,833
Inventories	-	-	34	-	34
Long-Term Loans/Notes Receivable	303,458	81	-	-	303,539
Investments (Note 4)	217,081	200	310,237	10,914	538,432
Equipment	223	13	2,362	-	2,598
Accumulated Depreciation	(166)	(8)	(724)	-	(898)
Intangible Assets	-	-	19	-	19
Deferred Charges	5,923	-	-	3,939	9,862
Other Assets	3	2	8,554	-	8,559
TOTAL ASSETS	$ 533,575	$ 856	$ 421,031	$ 37,620	$ 993,082
LIABILITIES/FUND EQUITY:					
Liabilities:					
Accounts Payable	$ 6,148	$ -	$ 106	$ 764	$ 7,018
Due to Primary Government (Note 13)	54	11	1,008	-	1,073
Due to Other Funds (Note 13)	-	-	-	1,791	1,791
Deferred Revenue	-	1	24,089	-	24,090
Bonds/Notes Payable (Net) (Note 12)	452,485	-	-	166,907	619,392
Property Held in Trust	-	-	15,808	-	15,808
Compensated Absences Payable	44	17	567	31	659
Estimated Insurance Claims (Note 7 and 9)	-	-	373,223	339,486	712,709
Arbitrage Rebate Tax Payable	235	-	-	34	269
Total Liabilities	458,966	29	414,801	509,013	1,382,809
Fund Equity:					
Contributed Capital (Note 17)	-	-	12,000	-	12,000
Retained Earnings:					
Reserved for Debt Service (Note 15)	69,628	-	-	14,169	83,797
Unreserved	4,981	827	(5,770)	(485,562)	(485,524)
Total Fund Equity	74,609	827	6,230	(471,393)	(389,727)
TOTAL LIABILITIES/FUND EQUITY	$ 533,575	$ 856	$ 421,031	$ 37,620	$ 993,082

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Combining Statement of Revenues, Expenses and Changes in Retained Earnings
Component Units - Proprietary Fund Types
For the Fiscal Year Ended June 30, 1994
(Expressed in Thousands)

	HOUSING AUTHORITY	HEALTH FACILITIES AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)	TOTALS
OPERATING REVENUES:					
Charges for Services	$ 35	$ 231	$ 32	$ -	$ 298
Investment Earnings	48,040	30	14,082	1,253	63,405
Contributions/Premiums	-	-	181,631	(5)	181,626
Other Operating Revenues	8	26	53	7	94
Total Operating Revenues	48,083	287	195,798	1,255	245,423
OPERATING EXPENSES:					
Personal Services	420	55	5,764	1,185	7,424
Contractual Services	1,635	58	2,037	728	4,458
Supplies/Materials	5	-	220	35	260
Expendable Equipment	-	-	88	-	88
Benefits	-	-	152,250	2,644	154,894
Depreciation	23	1	257	-	281
Amortization	-	-	9	-	9
Utilities/Rent	30	-	117	22	169
Communications	26	3	343	66	438
Travel	22	10	109	12	153
Repair/Maintenance	36	-	67	14	117
Interest Expense	38,212	-	1	10,403	48,616
Arbitrage Rebate Tax	87	-	-	34	121
Other Operating Expenses	81	14	287	(146)	236
Total Operating Expenses	40,577	141	161,549	14,997	217,264
Operating Income (Loss)	7,506	146	34,249	(13,742)	28,159
NONOPERATING REVENUES (EXPENSES):					
Transfers from Primary Government (Note 13)	-	-	-	42,167	42,167
Transfers to Primary Government (Note 13)	-	-	(2,402)	(2,382)	(4,784)
Income (Loss) Before Extraordinary Items	7,506	146	31,847	26,043	65,542
Extraordinary Loss on Bond Redemption	(701)	-	-	-	(701)
Net Income (Loss)	6,805	146	31,847	26,043	64,841
RETAINED EARNINGS - JULY 1 - As Previously Reported	67,804	681	(37,627)	(497,436)	(466,578)
Prior Period Adjustments (Note 3)	-	-	10	-	10
RETAINED EARNINGS - JULY 1- As Restated	67,804	681	(37,617)	(497,436)	(466,568)
RETAINED EARNINGS - JUNE 30	$ 74,609	$ 827	$ (5,770)	$ (471,393)	$ (401,727)

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Combining Statement of Cash Flows
Component Units - Proprietary Fund Types
For the Fiscal Year Ended June 30, 1994
(Expressed in Thousands)

	HOUSING AUTHORITY	HEALTH FACILITIES AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)	TOTALS
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts for Sales and Services	$ 35	$ 253	$ 188,824	$ 7	$ 189,119
Collections for Principal and Interest on Loans	128,852	54	-	-	128,906
Cash Payments for Loans	(17,862)	(139)	-	-	(18,001)
Payments to Suppliers for Goods and Services	(2,084)	(81)	(3,307)	(604)	(6,076)
Payments to Employees	(316)	(52)	(5,508)	(1,265)	(7,141)
Cash Payments for Claims	-	-	(75,574)	(28,413)	(103,987)
Collection of Notes Receivable	-	-	-	2	2
Other Operating Revenues	8	-	53	-	61
Net Cash Provided by (Used for) Operating Activities	108,633	35	104,488	(30,273)	182,883
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Payment of Principal and Interest on Bonds and Notes	(155,571)	-	-	(33,305)	(188,876)
Proceeds from Issuance of Bonds and Notes	66,540	-	-	40,500	107,040
Payment of Bond Issuance Costs	(905)	-	-	(364)	(1,269)
Transfers to Primary Government	-	-	(3,547)	(1,286)	(4,833)
Transfers from Primary Government	-	-	-	27,167	27,167
Cash Payments for Loans	-	-	(28,266)	-	(28,266)
Collections for Principal and Interest on Loans	-	-	43,173	-	43,173
Net Cash Provided by (Used for) Noncapital Financing Activities	(89,936)	-	11,360	32,712	(45,864)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition of Fixed Assets	(58)	-	(975)	-	(1,033)
Proceeds from Sale of Fixed Assets	-	-	3	-	3
Net Cash Used for Capital and Related Financing Activities	(58)	-	(972)	-	(1,030)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of Investments	(1,564,531)	(200)	(274,884)	(15,918)	(1,855,533)
Proceeds from Sales or Maturities of Investments	1,535,066	302	146,612	15,641	1,697,621
Interest and Dividends on Investments	11,534	34	13,411	1,481	26,460
Net Cash Provided by (Used for) Investing Activities	(17,931)	136	(114,861)	1,204	(131,452)
Net Increase (Decrease) in Cash and Cash Equivalents	708	171	15	3,643	4,537
Cash and Cash Equivalents, July 1	1,876	380	39,308	772	42,336
Cash and Cash Equivalents, June 30	$ 2,584	$ 551	$ 39,323	$ 4,415	$ 46,873

The notes to the financial statements are an integral part of this statement.

	HOUSING AUTHORITY	HEALTH FACILITIES AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)	TOTALS
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
Operating Income (Loss)	$ 7,506	$ 146	$ 34,249	$ (13,742)	$ 28,159
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:					
Depreciation	23	1	257	-	281
Amortization	-	-	9	-	9
Interest Expense	38,212	-	1	10,403	48,616
Interest on Investments	(18,916)	(30)	(14,081)	(1,253)	(34,280)
Arbitrage Rebate Tax	87	-	-	-	87
Change in Assets and Liabilities:					
Decr (Incr) in Accounts Receivable	767	(14)	(16,292)	1	(15,538)
Decr (Incr) in Due From Other Funds	-	-	1,059	-	1,059
Decr (Incr) in Inventories	-	-	34	-	34
Decr (Incr) in Long-Term Loans/Notes Receivable	80,760	(75)	-	-	80,685
Decr (Incr) in Other Assets	225	3	3,332	-	3,560
Incr (Decr) in Accounts Payable	125	(1)	26	-	150
Incr (Decr) in Due to Other Funds	(217)	(9)	(448)	16	(658)
Incr (Decr) in Due to Primary Government	54	11	725	-	790
Incr (Decr) in Deferred Revenue	-	1	24,089	-	24,090
Incr (Decr) in Property Held in Trust	-	-	(5,237)	-	(5,237)
Incr (Decr) in Compensated Absences Payable	6	2	87	31	126
Incr (Decr) in Estimated Insurance Claims	-	-	76,678	(25,764)	50,914
Incr (Decr) in Arbitrage Rebate Tax Payable	-	-	-	34	34
Net Cash Provided by (Used for) Operating Activities	$ 108,632	$ 35	$ 104,488	$ (30,274)	$ 182,881
SCHEDULE OF NONCASH TRANSACTIONS:					
Asset Disposals from Contributed Capital	-	-	(2)	-	(2)
Total Noncash Transactions	$ -	$ -	$ (2)	$ -	$ (2)

STATE OF MONTANA
Combining Balance Sheet
Component Units - All Higher Education Funds
June 30, 1994
(Expressed in Thousands)

	CURRENT FUNDS			
	UNRESTRICTED			
	GENERAL OPERATING	DESIGNATED	AUXILIARY	RESTRICTED
ASSETS:				
Cash/Cash Equivalents	$ 13,328	$ 15,829	$ 8,408	$ 2,941
Receivables (Net)	1,847	328	531	6,899
Interfund Loans Receivable (Note 13)	250	1,000	-	-
Due from Other Governments	2	5	-	3,216
Due from Primary Government (Note 13)	476	-	34	72
Due from Other Funds (Note 13)	4,734	3,736	401	1,333
Inventories	85	1,562	2,142	-
Equity in Pooled Investments	-	-	-	-
Long-Term Notes/Loans Receivable	-	-	-	-
Investments (Note 4)	-	-	-	-
Land	-	-	-	-
Buildings/Improvements	-	-	-	-
Equipment	-	-	-	-
Other Fixed Assets	-	-	-	-
Construction in Progress	-	-	-	-
Intangible Assets	-	-	-	-
Deferred Charges	-	-	-	-
Other Assets	2,537	709	42	138
TOTAL ASSETS	$ 23,259	$ 23,169	$ 11,558	$ 14,599
LIABILITIES/FUND BALANCES:				
Liabilities:				
Accounts Payable	$ 11,875	$ 3,021	$ 1,203	$ 3,308
Interfund Loans Payable (Note 13)	-	-	-	1,250
Due to Other Governments	53	17	-	10
Due to Primary Government (Note 13)	653	431	8	43
Due to Other Funds (Note 13)	4,183	1,715	1,408	4,030
Deferred Revenue	3,752	1,471	702	3,567
Lease/Installment Purchase Payable (Note 11)	-	-	-	-
Bonds/Notes Payable (Note 12)	313	11	5	-
Property Held in Trust	121	2	367	11
Compensated Absences Payable (Note 1)	17,588	3,558	1,387	46
Total Liabilities	38,538	10,226	5,080	12,265
Fund Balances:				
Net Investment in Plant	-	-	-	-
Reserved For:				
Encumbrances	822	20	11	86
Debt Service	-	-	-	-
Student Loans/Endowments	-	-	-	-
Unreserved	(16,101)	12,923	6,467	2,248
Total Fund Balances	(15,279)	12,943	6,478	2,334
TOTAL LIABILITIES/FUND BALANCES	$ 23,259	$ 23,169	$ 11,558	$ 14,599

The notes to the financial statements are an integral part of this statement.

FIDUCIARY FUNDS			PLANT FUNDS				
STUDENT LOANS	ENDOWMENTS	AGENCY	UNEXPENDED	RENEWAL AND REPLACEMENT	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT	TOTALS
$ 2,041	$ 2,163	$ 2,273	$ 9,091	$ 9,613	$ 4,739	$ -	$ 70,426
22,444	-	125	4,215	34	201	-	36,624
-	-	-	-	-	-	-	1,250
1	-	-	-	-	-	-	3,224
-	-	95	111	-	116	-	904
17	2	4,377	33	386	593	-	15,612
-	-	-	-	-	-	-	3,789
-	290	42	-	-	-	-	332
171	-	-	-	-	-	-	171
-	805	-	42,509	1,496	597	-	45,407
-	-	-	-	-	-	12,682	12,682
-	-	-	-	-	-	293,797	293,797
-	-	-	-	-	-	109,490	109,490
-	-	-	-	-	-	67,544	67,544
-	-	-	5,737	1,489	-	2,150	9,376
-	-	-	-	-	-	2,173	2,173
-	-	-	-	-	993	-	993
-	-	254	22	10	-	-	3,712
$ 24,674	$ 3,260	$ 7,166	$ 61,718	$ 13,028	$ 7,239	$ 487,836	$ 677,506
$ 1	$ 5	$ 774	$ 558	$ 270	$ 680	$ -	$ 21,695
-	-	-	-	-	-	-	1,250
-	-	310	-	-	-	-	390
-	-	908	2	-	-	-	2,045
92	1	1,013	217	256	492	-	13,407
-	-	-	49	73	32	-	9,646
-	-	-	-	-	-	3,088	3,088
-	-	-	42,576	577	1,094	69,079	113,655
-	-	4,161	-	-	-	-	4,662
-	-	-	-	-	-	-	22,579
93	6	7,166	43,402	1,176	2,298	72,167	192,417
-	-	-	-	-	-	415,669	415,669
-	-	-	30	63	-	-	1,032
-	-	-	-	-	4,941	-	4,941
24,581	3,254	-	-	-	-	-	27,835
-	-	-	18,286	11,789	-	-	35,612
24,581	3,254	-	18,316	11,852	4,941	415,669	485,089
$ 24,674	$ 3,260	$ 7,166	$ 61,718	$ 13,028	$ 7,239	$ 487,836	$ 677,506

STATE OF MONTANA
Statement of Changes in Fund Balance
Component Units - All Higher Education Funds
For the Fiscal Year Ended June 30, 1994
(Expressed in Thousands)

	CURRENT FUNDS			
	UNRESTRICTED			
	GENERAL OPERATING	DESIGNATED	AUXILIARY	RESTRICTED
REVENUES/OTHER ADDITIONS:				
Tuition/Fees	$ 59,374	$ 8,263	$ 7,654	$ 1
Federal Grants/Contracts	4,309	45	-	57,368
State Grants/Contracts	-	406	-	4,758
Local Grants/Contracts	-	-	-	594
Private Gifts/Grants/Donations	-	513	1	11,397
Endowment Income	-	-	-	8
Sales/Services-Educational Activities	1,008	1,506	2	76
Sales/Services-Designated/Auxiliary Enterprises	4	15,019	42,316	135
Indirect Costs Recovered	258	6,314	-	-
Investment Earnings	77	54	454	139
Gains - Investment Transactions	-	-	-	-
Acquisition of Long-Lived Assets	-	-	-	-
Retirement of Indebtedness	-	-	-	-
Other Revenues/Additions	188	2,074	335	220
Total Revenues/Other Additions	65,218	34,194	50,762	74,696
Intrafund Revenues/Other Additions	(1)	-	-	(485)
Net Revenues/Other Additions	65,217	34,194	50,762	74,211
EXPENDITURES/OTHER DEDUCTIONS:				
Instruction	90,108	3,747	5	5,623
Research	10,824	5,265	-	27,251
Public Service	5,769	3,696	-	12,446
Academic Support	14,417	5,210	-	1,998
Student Services	14,221	9,630	-	3,477
Institutional Support	15,393	573	2	101
Independent Operations	1,686	-	-	-
Scholarships/Fellowships	5,153	18	-	21,357
Auxiliary Enterprises	-	8	41,530	104
Operation/Maintenance of Plant	20,041	2	-	88
Expended for Plant	-	2	-	-
Debt Services	249	189	98	18
Capital Outlay	5,393	2,700	173	3,267
Disposal of Long-Lived Assets	-	-	-	-
Debt Incurred	-	-	-	-
Other Expenditures/Deductions	890	295	122	46
Total Expenditures/Other Deductions	184,144	31,335	41,930	75,776
Intrafund Expenditures/Other Deductions	(1)	-	-	(485)
Net Expenditures/Other Deductions	184,143	31,335	41,930	75,291
TRANSFERS IN (OUT)/OTHER ADDITIONS (DEDUCTIONS):				
Transfers from State General Fund	98,448	-	-	-
Millage Transfers	17,849	-	-	-
Mandatory Transfers	385	(358)	(4,148)	8
Nonmandatory Transfers	(208)	(1,155)	(6,325)	237
Other Transfers	-	-	216	-
Total Transfers In (Out) (Note 13)	116,474	(1,513)	(10,257)	245
Move Equity to Investment in Plant	-	-	-	-
Loan Proceeds	-	-	2	-
Bond Proceeds	-	-	-	-
Loss on Advance Refunding	-	-	-	-
Total Transfers In (Out)/Other Additions (Deductions)	116,474	(1,513)	(10,255)	245
Net Increase (Decrease) in Fund Balances	(2,452)	1,346	(1,423)	(835)
FUND BALANCES - July 1 - As Previously Reported	(12,830)	11,536	7,885	3,255
Prior Period Adjustments (Note 3)	-	-	4	2
FUND BALANCES - July 1 - As Restated	(12,830)	11,536	7,889	3,257
Residual Equity Transfers (Note 13)	3	61	12	(88)
FUND BALANCES - June 30	$ (15,279)	$ 12,943	$ 6,478	$ 2,334

The notes to the financial statements are an integral part of this statement.

FIDUCIARY FUNDS			PLANT FUNDS			
STUDENT LOANS	ENDOWMENTS	UNEXPENDED	RENEWAL AND REPLACEMENT	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT	
$ -	$ -	$ 1,929	$ 1,185	$ 2,202	$ -	
824	-	-	2	23	-	
66	-	-	-	-	-	
-	-	-	-	-	-	
19	431	721	58	-	-	
-	-	-	-	-	-	
-	-	-	-	-	-	
-	-	3	48	-	-	
-	-	-	-	-	-	
312	6	1,857	335	3,287	-	
-	148	-	-	55	-	
-	-	-	-	-	27,843	
-	-	-	-	-	65,575	
429	-	986	281	2,862	-	
1,650	585	5,496	1,909	8,429	93,418	
-	-	(17)	-	-	-	
1,650	585	5,479	1,909	8,429	93,418	
-	-	38	-	-	-	
-	-	-	-	-	-	
-	-	-	-	-	-	
-	-	-	-	-	-	
45	-	-	-	-	-	
-	-	-	-	-	-	
-	-	-	-	-	-	
-	-	-	-	-	-	
-	-	-	-	-	-	
-	-	-	-	-	-	
-	-	-	-	-	-	
-	-	1,290	2,575	670	-	
-	-	665	163	50,413	-	
-	-	1,639	1,863	-	-	
-	-	-	-	-	13,229	
-	-	-	-	-	62,070	
482	-	-	-	-	-	
527	-	3,632	4,601	51,083	75,299	
-	-	(17)	-	-	-	
527	-	3,615	4,601	51,083	75,299	
-	56	55	13	-	-	
-	-	-	-	-	-	
12	-	6,708	51	(2,215)	-	
(28)	34	1,236	5,908	795	-	
-	-	750	68	758	-	
(16)	90	8,749	6,040	(662)	-	
-	-	1,526	(644)	-	-	
-	-	637	-	31	-	
-	-	-	150	38,238	-	
-	-	-	-	(5,277)	-	
(16)	90	10,912	5,546	32,330	-	
1,107	675	12,776	2,854	(10,324)	18,119	
23,377	2,579	5,528	8,979	15,284	397,550	
97	-	-	19	(19)	-	
23,474	2,579	5,528	8,998	15,265	397,550	
-	-	12	-	-	-	
$ 24,581	$ 3,254	$ 18,316	$ 11,852	$ 4,941	$ 415,669	

STATE OF MONTANA
Statement of Current Funds Revenues, Expenditures, Transfers and Other Changes
Component Units - Higher Education Fund Type
For the Fiscal Year Ended June 30, 1994
(Expressed in Thousands)

	CURRENT FUNDS			
	UNRESTRICTED			
	GENERAL OPERATING	DESIGNATED	AUXILIARY	RESTRICTED
REVENUES:				
Tuition/Fees	$ 59,374	$ 8,263	$ 7,654	$ 1
Federal Grants/Contracts	4,309	45	-	57,368
State Grants/Contracts	-	406	-	4,758
Local Grants/Contracts	-	-	-	594
Private Gifts/Grants/Donations	-	513	1	11,397
Endowment Income	-	-	-	8
Sales/Services-Educational Activities	1,008	1,506	2	76
Sales/Services-Designated/Auxiliary Enterprises	4	15,019	42,316	135
Indirect Costs Recovered	258	6,314	-	-
Investment Earnings	77	54	454	139
Other Revenues	188	2,074	335	220
Total Revenues	65,218	34,194	50,762	74,696
Intrafund Revenues	(1)	-	-	(485)
Net Revenues	65,217	34,194	50,762	74,211
EXPENDITURES:				
Educational and General:				
Instruction	90,108	3,747	5	5,623
Research	10,824	5,265	-	27,251
Public Service	5,769	3,696	-	12,446
Academic Support	14,417	5,210	-	1,998
Student Services	14,221	9,630	-	3,477
Institutional Support	15,393	573	2	101
Scholarships/Fellowships	5,153	18	-	21,357
Operation/Maintenance of Plant	20,041	2	-	88
Other Expenditures	890	295	122	46
Total Educational and General Expenditures	176,816	28,436	129	72,387
Intrafund Expenditures	(1)	-	-	(485)
Net Educational and General Expenditures	176,815	28,436	129	71,902
Auxiliary Enterprises	-	8	41,530	104
Independent Operations	1,686	-	-	-
Debt Services	249	189	98	18
Capital Outlay	5,393	2,702	173	3,267
Total Expenditures	184,143	31,335	41,930	75,291
TRANSFERS IN (OUT):				
Transfers from State General Fund	98,448	-	-	-
Millage Transfers	17,849	-	-	-
Mandatory Transfers	385	(358)	(4,148)	8
Nonmandatory Transfers	(208)	(1,155)	(6,325)	237
Other Transfers	-	-	216	-
Total Transfers In (Out) (Note 13)	116,474	(1,513)	(10,257)	245
OTHER ADDITIONS (DEDUCTIONS):				
Loan Proceeds	-	-	2	-
Total Other Additions (Deductions)	-	-	2	-
Net Increase (Decrease) in Fund Balances	$ (2,452)	$ 1,346	$ (1,423)	$ (835)

The notes to the financial statements are an integral part of this statement.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements for the State of Montana have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements of the Higher Education Funds have been prepared in conformity with GAAP for colleges and universities as prescribed by the American Institute of Certified Public Accountants.

A. **Reporting Entity** - For financial reporting purposes, the State of Montana has included all funds and account groups which comprise the State of Montana (the primary government) and its component units. The component units are entities for which the State is financially accountable, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

Discrete component units

These component units are entities which are legally separate from the State because they possess corporate powers, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. Complete financial statements of the individual component units, which issued separate financial statements, can be obtained from their respective administrative offices. The Component Units columns of the combined financial statements include the financial data of these entities:

Housing Authority (Proprietary Fund Type) - This Authority is a quasi-judicial board, consisting of seven members appointed by the Governor, created in 1975 to facilitate the availability of decent, safe and sanitary housing to persons and families of lower income. The Board issues negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed $975,000,000. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. The Board was audited by other independent auditors, and their report, dated August 26, 1994, has been issued under separate cover.

Health Facilities Authority (Proprietary Fund Type) - This Authority is governed by a quasi-judicial board appointed by the Governor with the advice and consent of the Senate. Its purpose is to contain future health care costs by offering debt financing or refinancing at reduced rates to Montana non-profit private and public health care institutions for purchases of capital equipment and buildings. The Board issues revenue bonds to fulfill its purposes. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. The Authority is audited by the Legislative Auditor every two years and their report is issued under separate cover.

State Compensation Insurance Fund (New and Old) (Proprietary Fund Type) - The Fund is a quasi-governmental corporation governed by a five member board appointed by the Governor. The Fund provides workers' compensation insurance. The New Fund covers claims incurred after June 30, 1990, and is financed by member (employer) premiums. The Old Fund covers claims incurred before July 1, 1990, and is financed by a .5 percent tax on each employer as well as a .2 percent tax on employee wages and net income of self-employed persons. Administrative operations and budgets are reviewed by the Governor and the Legislature. The Fund is audited by the Legislative Auditor and their report is issued under separate cover.

Teachers' Retirement System (Pension Trust Fund Type) - This retirement system is a legally separate entity with a board appointed by the Governor. Its purpose is to provide retirement, disability, death and lump sum payments to members of Montana's public teaching profession. The administrative costs of the Teachers' Retirement Division are paid from interest earnings of the fund. The system is funded from employer and employee contributions and interest earnings. The system is audited by the Legislative Auditor and their report is issued under separate cover.

Colleges, Universities, and Vocational-Technical Centers (Higher Education Funds) - The State Board of Regents has oversight responsibility for the University of Montana, Montana State University, College of Mineral Sciences and Technology, Eastern Montana College, Northern Montana College, Western Montana College of the University of Montana, and vocational-technical centers located in Billings, Butte, Great Falls, Helena and Missoula. All units are funded through State appropriations, tuition, federal grants, and private donations and grants. The units are audited individually by the Legislative Auditor every two years and their reports are issued under separate cover.

Though the following organizations perform functions related to the higher education units, they are not considered part of Montana's reporting entity: (1) Community Colleges which are considered part of local units of government; and both (2) the Montana Higher Education Student Assistance Corporation, a private non-profit corporation, and (3) private foundations supporting public education, over which the State exercises neither financial nor administrative control (see Note 19). Entities such as local school districts and local authorities of various kinds are considered part of local units of

government and have not been included. The State's support of local public education systems is reported in the General and State Special Revenue Funds.

B. Fund Structure - The State uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

The financial activities of the State of Montana are classified into three fund categories, two account groups, and component units, as described below:

GOVERNMENTAL FUNDS

General Fund - To account for all governmental financial resources except those required to be accounted for in another fund.

Special Revenue Funds - To account for the proceeds of specific revenue sources restricted to expenditure for specified purposes (other than expendable trusts or major capital projects).

Debt Service Funds - To account for resources accumulated for payment of principal and interest on general long-term obligation debt.

Capital Projects Funds - To account for resources used for the acquisition or construction of major capital facilities (other than those financed by proprietary or trust funds).

PROPRIETARY FUNDS

Enterprise Funds - To account for operations (1) financed and operated similar to private business enterprises, where the intent of the legislature is to finance or recover costs primarily through user charges; or (2) where the legislature has decided periodic determination of revenue earned, expenses incurred, or net income is appropriate.

Internal Service Funds - To account for the financing of goods and services provided by one department or agency to other departments, agencies or other governmental entities on a cost-reimbursement basis.

FIDUCIARY FUNDS

Trust and Agency Funds - To account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. These include: (1) Expendable Trust Funds; (2) Nonexpendable Trust Funds; (3) Pension Trust Funds; and (4) Agency Funds.

ACCOUNT GROUPS

General Fixed Assets Account Group - To account for all fixed assets of the State, except those accounted for in the Proprietary, Nonexpendable Trust, Pension Trust and Plant Funds.

General Long-Term Obligations Account Group - To account for all long-term obligations of the State, except those accounted for in Proprietary, Nonexpendable Trust, Pension Trust and Plant Funds.

HIGHER EDUCATION (UNIVERSITY AND VOCATIONAL-TECHNICAL CENTER) FUNDS

Current Funds

Unrestricted

General Operating - To account for the portion of financial resources that can be expended for general operations and is free of externally imposed restrictions, except those imposed by the legislature.

Designated - To account for those resources associated with general operations which are separately classified in order to accumulate costs recharged to other funds and to identify special activities of educational departments which are supported by supplemental assessments and the receipt and disposition of special supply and facility fees which are approved for collection beyond normal course fees.

Auxiliary - To account for those financial resources devoted to providing essential on-campus services primarily to students, faculty or staff where a fee relating to the service is charged.

Restricted - To account for the portion of financial resources that can be expended only for purposes imposed by sources external to the Board of Regents and the legislature.

Fiduciary Funds

Student Loans - To account for moneys which may be loaned to students, faculty or staff for purposes related to education, organized research or public services by the higher education units.

Endowments - To account for moneys where the principal is available for investment. Investment earnings are to be transferred to (or recorded directly in) appropriate operating funds pursuant to prevailing administrative requirements.

Agency - To account for moneys where the State acts in the capacity of a custodian or fiscal agent for individual students, faculty, staff or qualified organizations.

Plant Funds

Unexpended - To account for unexpended resources derived from various sources which are used to finance the acquisition/construction of plant assets and the associated liabilities.

Renewal and Replacement - To account for resources used to provide for the renewal and replacement of plant fund assets as distinguished from additions and improvements.

Retirement of Indebtedness - To account for resources accumulated for interest and principal payments and other debt service charges, including contributions to reserves, relating to plant fund indebtedness.

Investment in Plant - To account for all long-lived assets in the service of the higher education unit as well as all associated liabilities.

C. Basis of Accounting - The accounting and reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds and Expendable Trust Funds are accounted for on a spending or "financial flow" measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is followed in the Governmental Funds and Expendable Trust Funds. Under the modified accrual basis, revenues are susceptible to accrual and recognized when they are measurable and available to pay current period liabilities. Intergovernmental revenues received as reimbursements are recognized based upon the expenditures incurred. Intergovernmental revenues received but not earned are recorded as deferred revenues. All other revenue including taxes on coal sales, gas and oil production, individual income and other self-assessed taxes is considered available if due within 60 days of fiscal year end. Based on historical analysis, a liability has been recognized for collected withholding taxes to be refunded in fiscal year 1995. Expenditures are recognized when the related fund liability is incurred, with the following exceptions:

(1) principal and interest on long-term debt is recognized when due;
(2) prepayments are accounted for as expenditures in the period of acquisition; and
(3) inventory items are considered expenditures when purchased..

All Proprietary, Pension Trust and Nonexpendable Trust Funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means all assets and liabilities associated with these activities are included on their balance sheets. Operating statements for these funds present increases (revenues) and decreases (expenses) in net total assets.

Proprietary, Pension Trust, Nonexpendable Trust and Higher Education Funds are maintained and report on the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable. In Higher Education Funds, depreciation expense related to plant fund assets is not recorded; also, student tuition and fees are fully recognized in the fiscal year in which the related courses or activities are principally conducted. Unbilled receivables of Proprietary and Higher Education Funds' are recognized as revenue.

Significant intrafund transactions and balances have been eliminated.

D. Cash/Cash Equivalents - For all funds, except the Housing Authority in the Component Units, cash and cash equivalents consist of cash deposits, cash invested in STIP and short-term, highly liquid investments with original maturities of three months or less. The Housing Authority considers cash and cash equivalents to be cash held by the state treasurer, other cash deposits, and mortgage payments in transit.

E. Receivables - This classification, net of estimated uncollectibles, consists primarily of receivables for goods sold and services provided; short-term loans and notes; interest and dividends; taxes due within 60 days of fiscal year-end; and income, withholding and inheritance taxes that are past due. An allowance for uncollectible taxes is provided based upon historical analysis. The allowance for uncollectible taxes at June 30, 1994, is $26.5 million.

F. Inventories - Inventories of materials and supplies are stated at cost. The State allows agencies to use any generally accepted inventory pricing method, but specifies the first-in, first-out method should be appropriate for most agencies.

Governmental and Expendable Trust Funds use the "purchase method," meaning inventory purchases are recorded as expenditures. At fiscal year-end significant amounts of inventory are shown as a reserve of fund balance, indicating they do not constitute "available spendable resources."

Proprietary, Pension Trust, Nonexpendable Trust and Higher Education Funds report using the "consumption method," meaning inventories are expensed as used.

G. Deferred Gains/ Losses - The Pension Trust Fund use this classification to reflect use of the deferral and amortization method of accounting for gains and losses on the exchange of securities.

H. Deferred Charges - Unamortized bond issuance costs are reported in this category.

I. Deferred Revenue - Deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

J. Compensated Absences - Full-time state employees earn vacation leave ranging from 15-24 days per year depending on the individual's years of service. Teachers employed by the State do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 40 hours of sick leave to a nonrefundable sick leave pool. For fiscal year 1994, 971 hours were contributed to the sick leave pool and 878 hours were withdrawn leaving a balance of 4,691 hours in the pool. No liability is reported in the accompanying financial statements because these hours are nonrefundable to participants except by grants approved through an application process.

Vested or accumulated leave of Proprietary and Pension Trust Funds is recorded as an expense and liability of those funds; for higher education the expense and liability is recorded in the current unrestricted funds as the benefits accrue to employees. The liability amount recorded in the General Long-Term Obligations Account Group is not expected to be liquidated with expendable financial resources, thus no expenditure or liability is reported in the governmental funds. Upon retirement or termination, an employee is paid for 100% of unused vacation leave and 25% of unused sick leave. GASB Statement 16, Accounting for Compensated Absences, became effective July 1, 1993. This statement requires the reporting of all employee related liabilities including the employer share of social security and pension costs.

K. Fund Balance/Retained Earnings Reserves - Portions of fund equity are reported as "reserved" to indicate (1) amounts not available for expenditure, such as equity represented by inventories; and (2) amounts legally segregated for a specific future use, such as those pledged for debt service and retirement benefits or legally-binding contractual agreements.

L. Property Taxes - Real property taxes are levied in October and are payable in two installments on November 30 and May 31. These taxes attach as an enforceable lien immediately if not paid when due. The State recognizes property tax revenues as available if they are collectible within 60 days after fiscal year-end. Material delinquent and total uncollected current year property taxes receivable are recorded in Receivables (Net of Uncollectibles).

Personal property tax levies are set each August and notices are normally mailed the following March or April. Half of mobile home taxes are due in 30 days and the remaining half on September 30. Taxes on all other types of personal property are to be paid in full 30 days after receipt of the notice. Personal property taxes attach as an enforceable lien immediately if not paid when due.

Property taxes are collected by each of Montana's 56 counties. The counties then remit the State's portion to the State Treasury. The majority of these taxes help fund public school systems and higher education.

M. Other Taxes - On the Combined Statement of Revenues, Expenditures and Changes in Fund Balances for All Governmental Fund Types and Expendable Trust Funds, the revenue category "Other Taxes" consists of the following taxes (in thousands):

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund
Vo-Tech/University Millage	$ -	$14,191	$ -	$ -
Cigarette/Tobacco	-	1,532	10,198	2,152
Inheritance/Estate	10,886	-	-	-
Alcoholic Beverage	2,162	2,434	-	-
Miscellaneous	40,927	47,683	-	-
TOTAL OTHER TAXES	$53,975	$65,840	$10,198	$2,152

2. BUDGETARY REPORTING

A. State Budget Process - Montana is a biennial budget state. The constitution requires that legislative appropriations not exceed available revenues. The legislature only utilizes revenue estimates in the budgetary process to establish appropriation levels. Expenditures may not legally exceed budgeted appropriations. In addition, the State Constitution prohibits borrowing to cover deficits incurred because appropriations exceeded anticipated revenues. State law requires an appropriation for disbursements from the General, Special Revenue, Capital Projects, Enterprise and Internal Service Funds, except for those State Special Revenue Funds which receive donations. Budgets may be established in other funds for administrative purposes.

Agency budget requests are submitted to the Governor and the legislative fiscal analyst. The Governor and budget director establish priorities and balance the budget. The Governor's budget is submitted to the legislative fiscal analyst who then prepares recommendations. A comparison of those recommendations with the Governor's budget is submitted to the legislature. Joint appropriations subcommittee hearings are held and an omnibus appropriation bill is reported in the House and subsequently sent to the Senate. The legislature generally enacts one bill making all appropriations for the next two fiscal years. The Office of Budget Program and Planning establishes for each program by accounting entity (fund) within an agency. The legislature enacts other appropriations, but only within the available revenue. Agencies must prepare and submit to the budget director operational plans showing the allocation of operating budgets by expenditure category (i.e., personal services, operating expenses, equipment, etc.). The budget director or other statutorily designated approving authority may authorize changes among expenditure categories and transfers between program appropriations.

Appropriations may not be increased by amendment in the General Fund. However, a department, institution or agency of the executive branch desiring authorization to make expenditures from the General Fund during the first fiscal year of

the biennium from appropriations for the second fiscal year of the biennium may apply for authorization from the Governor through the budget director. Additionally, the Governor, or his designee, may approve budget amendments for non-gener. fund moneys not available for consideration by the legislature and for emergencies. In the accompanying financi. statements, reported budget amounts are as amended. Budget amendments authorized for fiscal year 1994 were not material. There were no expenditures in excess of total authorized appropriations in the State's budgeted funds for the fiscal year.

Appropriations may be continued into the next fiscal year when authorized by the legislature or the governor's office. After fiscal year-end, appropriations that are not continued are reverted. The reverted appropriations remain available for one fiscal year for expenditures that exceed the amount accrued/encumbered. Fund balances/retained earnings are not reserved for reverted appropriations. For fiscal year 1994, reverted appropriations for all funds were $242 million. Beginning fiscal year 1994, agencies have the opportunity to carry forward 30% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of the budget office.

Because appropriations for Capital Projects Funds' are not made on an annual basis, activities for the Capital Projects Funds are not presented in the Combined Statement of Revenues, Expenditures, Other Financing Sources (Uses) and Reconciliation of Budget and Actual (Budgetary Basis) to GAAP Basis - Unreserved Fund Balance.

B. Encumbrances - Encumbrance accounting, under which purchase orders, contracts and other commitments are recorded as expenditures and liabilities in order to reserve that portion of the applicable appropriation, is employed for budget control purposes. Encumbrances outstanding at fiscal year-end are reported as reservations of fund balances for subsequent year expenditures.

C. Budget Basis - The legislature's legal authorization ("appropriations") to incur obligations is enacted on a basis inconsistent with GAAP. The budget basis differs from GAAP for encumbrances outstanding at fiscal year-end; compensated absences, fixed assets and inventories purchased in Proprietary Funds; compensated absences and inventories purchased in Higher Education Funds; certain loans from Governmental Funds; deferred gains (losses) on bond swaps; and other miscellaneous nonbudgeted activity (e.g., bad-debt write-offs, etc.). The General and Special Revenue Fund Type budgetary statement includes a reconciliation of unreserved fund balance between "Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses" on the budgetary basis and the GAAP basis.

3. ACCOUNTING AND REPORTING CHANGES

The State made changes in its accounting and reporting practices to enhance conformance with GAAP. The changes reported in the accompanying financial statements which resulted in the restatement of beginning fund equity were made to correct errors of prior periods.

4. CASH/CASH EQUIVALENTS AND INVESTMENTS

This footnote details the following balance sheet classifications (in thousands):

Cash/Cash Equivalents	$ 1,293,000
Equity in Pooled Investments	$ 835,765
Investments	$ 3,192,703

Carrying amounts and market values (Bank Balance for Cash Deposits) for the State's cash/cash equivalents and investments are presented in Tables 1 through 6. The State's cash equivalents and investments are categorized in Table 2 - Short-Term Investment Pool (STIP), Table 3 - Cash Equivalents, Table 4 - Equity in Pooled Investments and Table 6 - Investments to disclose the level of risk assumed by the State at fiscal year-end. **Category 1** includes investments that are insured or registered, securities held by the State or its agent in the State's name. **Category 2** includes uninsured and unregistered investments in which the securities are held by the counterparty's trust department or agent in the State's name. **Category 3** includes uninsured and unregistered investments in which the securities are held by the counterparty, or by its trust department or agent, but not in the State's name. None of the State's cash equivalents or investments were classified in Category 3 at fiscal year-end.

Under a security lending agreement with the State's agent, all of the State's investments may be loaned. The agreement requires the collateralization of loaned securities with securities at 102% of their face value.

A. Cash/Cash Equivalents

(1) Cash Deposits - The State's main depository bank balance fluctuates daily. The State requires collateralization based on an average daily bank balance. For other depository banks, State statutes require collateralization at 50% of the bank balance. All securities pledged for collateral are held by the State or by the State's agent or its pledging institution's trust department in the State's name (see risk category 1 and 2, Table 1). The Cash Deposit amounts include both Primary Government and Component Unit deposits.

TABLE 1 - CASH DEPOSITS (In Thousands)

Risk Category	Carrying Amount	Bank Balance	Fund
Insured (FDIC)	$ 1,578	$ 1,578	Various
Uninsured:			
(1) Collateral held by State/State's agent	354,925	23,630	Various
(2) Collateral held by pledging institution's trust department	3,478	3,478	Various
(3) Uncollateralized	634	73	Various
Uncategorized:			
Cash in U.S. Treasury	95,804		
Less: Outstanding Warrants	(41,667)		
TOTAL CASH DEPOSITS	$414,752		

(2) **Short-Term Investment Pool (STIP)** - STIP consists of cash in the State Treasury not invested by individual funds in identifiable securities. Cash is pooled and invested in short-term instruments. Each investing fund, including local governments outside this reporting entity, purchase units in STIP. STIP is under the control of the Board of Investments.

TABLE 2 - SHORT TERM INVESTMENT POOL (STIP) (In Thousands)

	Risk Categories 1	Risk Categories 2*	Carrying Amount	Market Value	Fund
Government Securities	$ 83,847	$25,651	$ 109,498	$ 109,120	Various
Bankers' Acceptances	207,421	-	207,421	208,345	Various
Commercial Paper	299,489	-	299,489	299,355	Various
Repurchase Agreements	80,000	-	80,000	80,000	Various
Corporate Obligations	136,661	-	136,661	136,267	Various
Certificates of Deposit	30,494	-	30,494	30,386	Various
TOTAL STIP	$ 837,912	$25,651	$ 863,563	$ 863,473	

*At June 30, 1994, these securities with a market value of $25,532 were loaned under a security lending agreement with the State's agent.

As of June 30, 1994, total STIP included securities owned by local governments with both a carrying value and a market value of $263,319,600.

(3) **Cash Equivalents** - Cash equivalents except for the Board of Housing in the Enterprise Fund type, are short-term, highly liquid investments with original maturities of three months or less. The Board of Housing considers cash and cash equivalents to be cash held by the state treasurer, other cash deposits, and mortgage payments in transit. Cash equivalents may be under the control of the Board of Investments (the Board) or other agencies, as allowed by law.

TABLE 3 - CASH EQUIVALENTS (In Thousands)

Fund Type	Government Securities	Risk Category 1	Money Market	Carrying Amount	Market Value
PRIMARY GOVERNMENT					
Enterprise	$1,538	$1,538	$2,617	$4,155	$4,155
Sub-Total	1,538		2,617	4,155	4,155
COMPONENT UNITS					
Enterprise	2,533	2,533		2,533	2,533
Higher Education			7,997	7,997	7,997
Sub-Total	2,533		7,997	10,530	10,530
TOTAL	$4,071	$4,071	$10,614	$14,685	$14,685

8. **Equity in Pooled Investments** - Consists of cash pooled and invested in common stock and convertible debt securities of publicly held companies. Known as MONTCOMP (Montana Common Stock Pool) and MTCVP (Montana Convertible Pool), participation is restricted to expendable trust, nonexpendable trust, pension trust and higher education endowment funds. Purchases are subject to statutory restrictions for quality and size of holdings.

TABLE 4 - EQUITY IN POOLED INVESTMENTS (In Thousands)

	Risk Categories 1	Risk Categories 2*	Carrying Amount	Market Value
MONTCOMP				
Corporate Stocks	$723,174	$35,484	$758,658	$831,902
MTCVP				
Corporate Bonds	46,649	5,708	52,357	48,438
Corporate Stocks	18,366	6,384	24,750	22,543
TOTAL EQUITY IN POOLED INVESTMENTS	$788,189	$47,576	$835,765	$902,883

* At June 30, 1994, these securities with a market value of $47,002 were on loan under a security lending agreement with the State's agent.

C. Investments - Investments are primarily administered by three state agencies. Article 8 of Montana's Constitution, with supporting statutes, provides the Board of Investments with the authority to manage the State's uniform investment program. State law specifies which agencies may hold investments outside the administration of the Board. The Board, as the State's primary administrator of long-term investments, actively manages 90% of those investments; the Board of Housing, 7%; and the Department of Administration's Personnel Division, 3% for the State's Deferred Compensation Plan.

The Board must employ the "Prudent Expert Rule" in managing the State's investment portfolio. The funds carry equity securities at cost and debt securities at amortized cost. Deferred compensation plan investments are carried at market.

The Board of Investments continued to invest in leveraged buyouts and venture capital in fiscal year 1994. The Board's total leveraged buyout commitment, administered by Kohlberg, Kravis, Roberts and Companies, amounts to $50,000,000. The leveraged buyout invested balance for the pension funds amounted to $25,026,224 on June 30, 1994.

For the purpose of portfolio diversification, the Board has committed $27,623,000 for venture capital investments administered by Brinson Partners. The June 30, 1994, venture capital invested balance totaled $6,872,886 for the Teachers' Retirement and $8,399,801 for the Public Employees' Retirement systems.

In September 1991, the board committed $5,000,000 per year for the next five years to invest in mortgage servicing rights. As of June 30, 1994, the invested balance in America's Mortgage Servicing, Inc., totaled $1,350,000 for the Teachers' Retirement and $1,650,000 for the Public Employees' Retirement systems.

TABLE 5 - INVESTMENTS (CARRYING AMOUNT/MARKET VALUE) (In Thousands)

Fund Type	Carrying Amount	Market Value	Corporate Bonds	Government Securities	Mortgages	Other
PRIMARY GOVERNMENT						
Special Revenue						
Carrying Amount	$ 10,029		$ 3,533	$ 6,496	$ -	$ -
Market Value		$ 9,980	3,526	6,454	-	-
Debt Service						
Carrying Amount	1,689		-	1,689	-	-
Market Value		1,649	-	1,649	-	-
Enterprise						
Carrying Amount	13,717		537	12,978	-	202
Market Value		13,978	537	13,199	-	242
Internal Service						
Carrying Amount	22,085		5,628	16,457	-	-
Market Value		22,006	5,666	16,340	-	-
Expendable Trust						
Carrying Amount	599		-	599	-	-
Market Value		602	-	602	-	-
Nonexpendable Trust						
Carrying Amount	791,650		487,083	264,162	-	40,405
Market Value		778,467	481,077	254,713	-	42,677
Pension Trusts						
Carrying Amount	997,946		534,823	331,224	58,575	73,324
Market Value		991,586	528,777	319,945	58,575	84,289
Total Identifiable Investments:						
Carrying Amount	$1,837,715		$1,031,604	$ 633,605	$ 58,575	$113,931
Market Value		$1,818,268	$1,019,583	$ 612,902	$ 58,575	$127,208
Deferred Compensation	99,653	99,653				
Total Primary Government						
Carrying Amount	$1,937,368					
Market Value		$1,917,921				

Fund Type	Carrying Amount	Market Value	Corporate Bonds	Government Securities	Mortgages	Other
COMPONENT UNITS						
Enterprise						
Carrying Amount	538,431		160,935	342,094	-	35,402
Market Value		531,924	156,793	338,957	-	36,174
Pension Trust						
Carrying Amount	671,496		363,607	213,363	41,201	53,325
Market Value		670,167	361,067	207,139	41,201	60,760
Higher Education						
Carrying Amount	45,408			44,703	-	705
Market Value		48,740		47,996	-	744
Total Component Units						
Carrying Amount	$1,255,335		$ 524,542	$ 600,160	$ 41,201	$ 89,432
Market Value		$1,250,831	$ 517,860	$ 594,092	$ 41,201	$ 97,678
TOTAL INVESTMENTS	$3,192,703	$3,168,752				

TABLE 6 - INVESTMENTS (RISK CATEGORIES) (In Thousands)

Security Type	Categories 1	Categories 2	Carrying Amount	Market Value
PRIMARY GOVERNMENT				
Corporate Bonds	$ 967,128	$ 64,476	$1,031,604	$1,019,583
Government Securities	158,569	475,036	633,605	612,902
Other	81,520	7,474	88,994	92,414
Total	$1,207,217	$ 546,986	$1,754,203	$1,724,899
COMPONENT UNITS				
Corporate Bonds	$ 494,421	$ 30,121	$ 524 542	$ 517,860
Government Securities	188,844	411,316	600,160	594,092
Other	37,687	32,448	70,135	71,427
Total	720,952	473,885	1,194,837	1,183,379
TOTAL	$1,928,169	$1,020,871	$2,949,040	$2,908,278
Direct Investments:				
PRIMARY GOVERNMENT				
Mortgages			$ 58,575	$ 58,575
Other			24,937	34,794
Deferred Compensation			99,653	99,653
TOTAL			$ 183,165	$ 193,022
COMPONENT UNITS				
Mortgages			$ 41,201	$ 41,201
Other			19,297	26,251
Total			$ 60,498	$ 67,452
TOTAL INVESTMENTS			$3,192,703	$3,168,752

At June 30, 1994, the Board of Investments had corporate bonds, govemment securities , and International bonds in risk category 2 with a market value (in thousands) of $87,991, $666,575, and $11,782 respectively, on loan under a security lending agreement with the State's agent.

5. FIXED ASSETS

Fixed asset valuation is based on actual or estimated historical cost or, in the case of donations, fair market value on the date donated. Infrastructure fixed assets are generally not capitalized by the Primary Government or its component units. Interest incurred during construction is not capitalized for fixed assets or higher education units' fixed assets.

Fixed assets are not depreciated in the General Fixed Assets Account Group. When purchased, such assets are recorded as expenditures in the Governmental Fund. Fixed assets in Proprietary, Nonexpendable Trust and Pension Trust funds are accounted for within their respective funds. Expendable Trust Funds do not show fixed assets within their funds because they are purchased by other funds. Fixed assets are depreciated on a straight-line basis with estimated useful lives of 30-50 years for buildings, 20 years for improvements and 4-12 years for equipment.

Fixed assets and intangible assets for Higher Education Units are accounted for in the Investment in Plant Fund and are not depreciated.

Intrafund transfers of fixed assets have not been eliminated in the table below.

Changes in fixed asset balances for the fiscal year ended June 30, 1994, are reflected in the following table (in thousands):

PRIMARY GOVERNMENT

	Balance July 1, 1993	Additions/ Transfers	Deletions/ Transfers	Balance June 30, 1994
PROPRIETARY FUNDS				
Land	$ 1,036	$ -	$ -	$ 1,036
Buildings/Improvements	4,255	109	26	4,338
Equipment	113,887	11,312	5,528	119,671
Other Fixed Assets	11	-	-	11
Construction in Progress	453	2,337	1,665	1,125
Subtotal/Total	119,642	$ 13,758	$ 7,219	126,181
Accumulated Depreciation	(65,892)			(69,941)
Total	$ 53,750			$ 56,240
NONEXPENDABLE TRUST FUNDS				
Land	$ 49,399	$ -	$ -	$ 49,399
PENSION TRUST FUNDS				
Land	$ 25	$ -	$ -	$ 25
Buildings/Improvements	197	80	-	277
Equipment	124	12	1	135
Subtotal/Total	346	$ 92	$ 1	437
Accumulated Depreciation	(181)			(203)
Total	$ 165			$ 234
GENERAL FIXED ASSETS ACCOUNT GROUP				
Land	$ 56,057	$ 2,039	$ 1,560	$ 56,536
Buildings/Improvements	233,422	17,301	9,457	241,266
Equipment	91,438	14,305	14,682	91,061
Other Fixed Assets	43,824	313	21	44,116
Construction in Progress	5,951	1,647	3,449	4,149
Total	$ 430,692	$ 35,605	$ 29,169	$437,128

COMPONENT UNITS

	Balance July 1, 1993	Additions/ Transfers	Deletions/ Transfers	Balance June 30, 1994
PROPRIETARY FUNDS				
Equipment	$ 1,603	$ 1,018	$ 23	$ 2,598
Accumulated Depreciation	(628)			(898)
Total	975			$ 1,700
PENSION TRUST FUND				
Land	$ 35	$ -	$ -	$ 35
Buildings/Improvements	158	-	-	158
Equipment	144	16	1	159
Subtotal/Total	337	$ 16	$ 1	352
Accumulated Depreciation	(151)			(171)
Total	$ 186			$ 181
HIGHER EDUCATION FUNDS				
Land	11,269	$ 1,722	$ 309	$ 12,682
Buildings/Improvements	291,818	6,677	4,698	293,797
Equipment	104,002	13,956	8,468	109,490
Other Fixed Assets	63,744	4,767	967	67,544
Construction in Progress	3,271	6,213	108	9,376
Intangible Assets	1,679	605	111	2,173
Total	$ 475,783	$ 33,940	$ 14,661	$ 495,062

6. RETIREMENT SYSTEMS

A. Defined Contribution Plans - Effective January 1, 1988 through June 30, 1993, eligible employees of the Montana University System (MUS) could elect to participate in the Optional Retirement Program (ORP). The ORP is a defined contribution retirement plan governed by Title 19, Chapter 21 of the Montana Code Annotated. The plan is underwritten by the Teachers' Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) and only faculty and

staff with contracts under the authority of the Board of Regents may participate. Those faculty and staff members who did not elect the ORP participate in the Teachers' Retirement System, a defined benefit plan discussed in the next section. Beginning July 1, 1993, membership in the ORP is mandatory for eligible employees new to the MUS.

The benefits at retirement depend upon the amount of contributions, amount of investment gains and losses and the employee's life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. Individuals are immediately vested with all contributions. Higher education units record employee/employer contribution expenditures in the affected higher education subfund when remitting contributions to the Commissioner of Higher Education. These moneys are recorded in the Custodial Accounts Agency Fund. The Commissioner's Office then wire transfers the contributions to TIAA-CREF. The MUS is not liable for asset management or for providing benefits after the required contributions have been made to TIAA-CREF. Approximately 1,112 employees are members of the ORP. Employee contributions are 7.044% of salary and employer contributions are 4.956% of salary for a total of 12% of salary contributed to the ORP.

	TIAA-CREF (in thousands)
Covered Payroll	$ 33,470
Total Payroll	170,874
Employer Contributions	$ 1,658
Percent of Covered Payroll	4.956%
Employee Contributions	$ 2,427
Percent of Covered Payroll	7.044%

B. Defined Benefit Plans - The State contributes to and/or administers eight retirement systems and one pension plan in four categories: (1) the State as the single employer; (2) the State as an employer contributor to cost-sharing multiple-employer plans; (3) the State as a nonemployer contributor to cost-sharing multiple employer plans; and (4) the State as a nonemployer contributor.

The number of years required to obtain vested rights varies among the systems. All systems provide early retirement options, death benefits, termination (except VFCA) and disability benefits. All systems (except VFCA) provide post-retirement benefits. Post-retirement benefits for the GWRS, PERS, TRS and SRS are based on investment yield, retirees' total years of service, age and option chosen at the time of retirement. Post-retirement adjustments are made only in years when funding is available and do not increase the unfunded liability of the system. The post-retirement benefits of each of the remaining systems are included in the plan descriptions below.

The funding policies for each system provide for periodic employer and employee contributions (except VFCA) at rates specified by state law; contribution requirements are not actuarially determined. An actuary determines the actuarial implications of the funding requirement in a biennial actuarial valuation. The actuarial method used to determine the implications of the statutory funding level is the entry age normal funding method, with both normal cost and amortization of the unfunded accrued liability determined as a level percentage of payroll. To maintain a fund on an actuarially sound basis, the rate of contributions should fund the normal cost in addition to amortizing the unfunded liability over a period not to exceed 40 years. The Contributions Required (R) by State/Actual (A) Contributions section contains the number of years needed to fund the normal cost and amortize the unfunded liability. Additionally, each system functions uniquely as described below:

(1) State as the Single Employer

HPORS - Highway Patrol Officers' Retirement System - This system, established in 1971 and governed by Title 19, Chapter 6 of the Montana Code Annotated, provides retirement benefits for all uniformed members of the Montana Highway Patrol, including supervisory personnel. Member and State contributions are 9% and 36.28%, respectively, of total salaries of active highway patrol officers. For members hired on or before July 1, 1985, there is no minimum age, but minimum service is 20 years for benefit eligibility. A member hired after July 1, 1985, must be 50 years old and have 20 years of creditable service for benefit eligibility. The service retirement benefit is based on a formula of 2.5% times the number of years of service times the final average salary. Post-retirement benefits are in the form of minimum benefit supplements which ensure the retiree's benefit is no less than 2% of a probationary highway patrol officer's salary for each year of the retiree's service, with the annual increase not to exceed 5% of the benefit. Members retired prior to July 1, 1991, who are at least age 55 and have been retired a minimum of five years, will also receive a lump sum payment. This lump sum payment is funded by a registration fee of 25 cents per vehicle license. Rights are vested after five years of service.

JRS - Judges' Retirement System - This system, established in 1967 and governed by Title 19, Chapter 5 of the Montana Code Annotated, provides retirement benefits for all district court judges, justices of the Supreme Court, and the Chief Water Judge. Members contribute 7% of their salary and the State contributes 6% of active judges' salaries, district court fees equal to 34.71% of members' salaries, and 25% of Supreme Court fees. For benefit eligibility, minimum service is 5 years and minimum age is 65. The monthly retirement benefit formula is 3 1/3% times the number of years of service (to a maximum of 15 years) times 1/12 the current annual salary, plus 1.785% of such salary for each year of service after 15 years. JRS retirees receive increases in benefits at the same rate as salary increases are granted to active members through legislative action. Rights are vested after five years of creditable service.

GWRS - Game Wardens' Retirement System - This system, established in 1963 and governed by Title 19, Chapter 8 of the Montana Code Annotated, provides retirement services for all persons employed as a game warden, including all

supervisory personnel. The member contributes 7.9% of salary and the State contributes 7.15% of active game wardens's salaries, plus all collections from fines and forfeited bonds related to fish and game law violations. For benefit eligibility, minimum age is 50 and minimum years of service are 20. A member may retire with ten years of service at age 55. The formula for a service retirement allowance is 2% times the number of years of service times the final average salary. Rights are vested after ten years of service.

(2) State as an Employer Contributor to a Cost-Sharing Multiple-Employer

PERS - Public Employees' Retirement System - This mandatory system, established in 1945 and governed by Title 19, Chapter 3 of the Montana Code Annotated, provides retirement services to substantially all public employees not covered by another public system. The contribution rate is 6.70% of gross wages for both employees and employers. Benefit eligibility is age 60 with at least 5 years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarially reduced benefits may be taken with 25 years of service or at age 50 with at least five years of service. Monthly retirement benefits are determined by taking the greater of: (1) 1/56 times the number of years of service times the final average salary times any early retirement reduction if necessary or (2) a monthly annuity that is the actuarial equivalent of twice the member's accumulated regular contributions. Members' rights are vested after 5 years of service.

TRS - Teachers' Retirement System - This mandatory system, established in 1937 and governed by Title 19, Chapter 20 of the Montana Code Annotated, provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, vocational-technical center or unit of the university system. Contribution rates are 7.044% of gross wages for employees. Employer contribution rates increased from 7.459% to 7.47% of gross wages beginning January 1, 1994. Eligibility is met with a minimum of 25 years of service or age 60 with 5 years of creditable service. The formula for annual benefits is 1/60 times creditable service times the final average compensation. Rights are vested after five years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits.

SRS - Sheriffs' Retirement System - This system, established in 1974 and governed by Title 19, Chapter 7 of the Montana Code Annotated, covers all persons employed as County sheriffs, undersheriffs, and regularly appointed deputy sheriffs, as well as all criminal justice investigators hired by the State Department of Justice on and after July 1, 1993. The member contribution is 7% of salary; the employer contribution is 7.67% of salary. Minimum years of service for normal service retirement eligibility are 24 for members elected or appointed prior to July 1, 1989. For members elected or appointed on or after July 1, 1989, the minimum years of service are 24 and the minimum age is 50. The service retirement allowance is calculated at 2.0834% of the final average salary for each year of creditable service, up to a maximum of 50% of final salary, plus 1.35% of the final average salary for each year of service in excess of 24 years, up to a maximum of 60% of final salary. Reduced benefits for early retirement may be taken with a minimum of 15 years of service and a minimum age of 50. Rights are vested after 5 years of service for any member terminated involuntarily, and after 15 years if termination is voluntary.

(3) State as a Nonemployer Contributor to a Cost-Sharing Multiple-Employer

MPORS - Municipal Police Officers' Retirement System - The system, established in 1975 and governed by Title 19, Chapter 9 of the Montana Code Annotated, covers all municipal police officers of cities covered by the plan. The member contribution is 7.8% of salary for members employed prior to July 1, 1975; 9% of salary for members employed after June 30, 1975, and prior to July 1, 1979; and 10.5% for members employed after June 30, 1979. City contributions are 14.36% of active police officers' salaries. The State contributes 15.66% of active police officers' salaries. The State's contribution is funded from the premium tax on motor vehicle property and casualty insurance policies. Minimum years of service are 10 for benefit eligibility at age 50, or 20 years of service at any age. The service retirement benefit is 2.5% times the number of years of service times the final average salary. The post-retirement benefit is the amount needed to ensure that the retiree's benefit is no less than 50% of the base salary of a newly confirmed police officer. These post-retirement benefits ate paid directly by the insurance premium tax fund and are in addition to the actuarially determined contributions to the system. Rights are vested after ten years of service.

FURS - Firefighters' Unified Retirement System - This system, established in 1981 and governed by Title 19, Chapter 13 of the Montana Code Annotated, provides retirement benefits for all paid firefighters. The member contribution is 6% of base compensation, and city contributions are 13.02% of total annual compensation. The State contribution is 23.27% of total annual compensation for all firefighters and is paid out of the insurance premium tax fund. Minimum age is 50 and minimum service is 10 years for benefit eligibility. For members hired prior to July 1, 1981, with at least 20 years of service, the monthly service retirement benefit is equal to 1/2 of the final monthly compensation received plus an additional 1% for each year in excess of 20 years, up to a maximum benefit of 60% of final monthly compensation. Members hired on or after July 1, 1981 receive a service retirement benefit equal to 2% of final average salary for each year of service up to a maximum of 30 years. Post-retirement benefits require that each retiree receive at least 50% of the salary paid a newly confirmed active firefighter. The cost of this adjustment for members retired prior to July 1, 1973 and after July 1, 1981 is paid from the fire insurance premium tax fund, provided funds are available; for members retired after July 1, 1973 who were hired prior to July 1, 1981, these benefits are actuarially funded within the system. Rights are vested after ten years of service.

(4) State as a Nonemployer Contributor

VFCA - Volunteer Firefighters' Compensation Act - This compensation program, established in 1965 and governed by Title 19, Chapter 17 of the Montana Code Annotated, provides medical benefits and pension, disability and death benefits for all volunteer firefighters who are members of eligible volunteer fire companies in unincorporated areas of the state. The State contribution is 5% of fire insurance premium taxes collected. For member with at least 20 years of service credit, the full participation benefit is $120 per month; members retiring with at least 10 years of service receive proportional monthly pension. Rights are vested after 10 years of qualified service.

C. Actuarial Data

Actuarial valuations are performed every two years. Hendrickson, Miller & Associates Inc., Helena, MT, prepared the actuary reports for the retirement systems, excluding TRS. Milliman & Robertson, Inc., of Seattle, WA., performed the actuarial valuation for TRS. With the exception of the VFCA, which discloses information as of June 30, 1993, the following tables disclose various information by retirement system (dollar amounts expressed in thousands) as of June 30, 1994. Although specific total payroll amounts are not available, substantially all of total payroll is covered.

	PRIMARY GOVERNMENT								COMP UNIT
	HPORS	JRS	GWRS	PERS	SRS	MPORS	FURS	VFCA	TRS
Membership									
Receiving Benefits	221	34	69	11,961	111	482	417	648	7,198
Vested Term. Employee	3	3	1	1,173	19	3	5	412	1,113
Non-vested Term. Employee	5	-	4	6,614	82	25	43	1,870	5,761
Vested Active Employees	118	30	47	18,067	326	197	250	2,030	10,050
Non-vested Active Employees	84	14	38	8,977	226	283	162	708	7,389
Total	431	81	159	46,792	764	990	877	5,668	31,511
Plan Descriptions									
Total Covered Payroll	$ 5,650	$ 2,777	$ 2,494	$572,974	$15,869	$13,395	$12,424	N/A	$440,463
State Covered Payroll	$ 5,650	$ 2,777	$ 2,494	$305,598	N/A	N/A	N/A	N/A	$ 74,527

	PRIMARY GOVERNMENT					TOTAL PRIM GOV'T	COMP UNIT
	HPORS	JRS	GWRS	PERS	SRS		TRS
Funding Status & Progress							
Last Actuarial Valuation	7/01/94	7/01/94	7/01/94	7/01/94	7/01/94		7/01/94
Return on Investments	8.0%	8.0%	8.0%	8.0%	8.0%		8.0%
Projected Salary Increases:							
Inflation	6.0%	6.0%	6.0%	6.25%	6.0%		6.0%
Merit	NONE	NONE	NONE	NONE	NONE		.5%
Changes In Post-retirement	6.0%	6.0%	NONE	NONE	NONE		NONE
PBO (1):							
Retirees,beneficiaries (2)	$38,906	$12,957	$ 9,305	$ 716,271	$10,947	$ 788,386	$ 768,570
Current Employees (3)	6,069	1,932	3,030	364,675	11,905	387,611	459,776
Employer-financed vested	16,639	7,908	3,210	373,444	15,744	416,945	342,270
Employer-financed non-vested	1,243	1,307	350	21,596	2,621	27,117	15,485
Total PBO	$62,857	$24,104	$15,895	$1,475,986	$41,217	$1,620,059	$1,586,101
Net Assets Available for Benefits at Cost*	$36,837	$19,339	$14,481	$1,202,063	$50,901	$1,323,621	$ 999,593
Unfunded PBO	$26,020	$ 4,765	$ 1,414	$ 273,923		$ 306,122	$ 586,508
Assets in Excess of PBO					$ 9,684	$ 9,684	
*At Market Value	$40,466	$21,281	$16,304	$1,366,864	$55,220	$1,500,135	$1,136,361

	MPORS	FURS	VFCA
Funding Status & Progress			
Last Actuarial Valuation	7/01/94	7/01/94	7/01/93
Return on Investments	8.0%	8.0%	8.0%
Projected Salary Increases:			
Inflation	6.0%	6.0%	(4)
Merit	NONE	NONE	(4)
Changes In Post-retirement	6.0%	6.0%	NONE
PBO (1):			
Retirees,beneficiaries (2)	$50,934	$ 54,090	$ 9,120
Current Employees (3)	10,448	11,206	8,435
Employer-financed vested	22,271	44,300	N/A
Employer-financed non-vested	5,432	4,746	N/A
Total PBO	$89,085	$114,342	$17,555
Net Assets Available for Benefits at Cost*	$52,230	$ 51,543	$ 9,375
Unfunded PBO	$36,855	$ 62,799	$ 8,180
*At Market Value	$56,209	$ 54,647	$ 9,384

Contributions Required (R) by Statute/Actual (A) Contributions (5) (Statute Req. is Actuarially Determined)

	PRIMARY GOVERNMENT								COMP UNIT
	HPORS	JRS	GWRS	PERS	SRS	MPORS	FURS	VFCA	TRS
Total Contributions	$ 2,929	$ 919	$ 667	$88,957	$2,395	$ 5,424	$ 5,098 (4)	$ 669	$77,913
Normal Cost	1,459	919	382	58,501	2,188	3,021	2,364	401	41,817
% Of Covered Payroll	25.82%	33.09%	15.32%	10.21%	13.79%	22.55%	19.03%	N/A	9.49%
Amort Unfunded Liab	1,470	-	285	30,456	207	2,403	2,734	404	36,096
% of Covered Payroll	26.02%	-	11.43%	5.32%	1.30%	17.94%	22.01%	N/A	8.20%
Years Req. to Fund Normal Cost & Amortize Unfunded Liab.	26.35	8.59	.43	16.12	-	16.65	25.46	(4)	31.7
Employer Contributions (A)	$ 1,550	$ 166	$ 194	$38,409	$1,201	$ 1,917	$ 1,615	-	$39,164
% of Covered Payroll (A)	27.43%	6.0%	7.78%	6.704%	7.57%	14.31%	13.00%	-	8.892%
% of Covered Payroll (R)	36.28%	6.0%	7.15%	6.70%	7.67%	14.36%	13.02%	-	7.470%
State Contributions (A)	$ 1,550	$ 166	$ 194	$20,481	-	-	-	-	$ 6,035
% of Employer Cont. (A)	100%	100%	100%	53.3%	-	-	-	-	15.4%
Employee Contributions (A)	$ 572	$ 194	$ 226	$41,217	$1,194	$ 1,377	$ 745	-	$ 38,749
% of Covered Payroll (A)	10.11%	7.0%	9.06%	7.194%	7.53%	10.28%	6.00%	-	8.797%
% of Covered Payroll (R)	9.0%	7.0%	7.9%	6.70%	7.0%	(6)	6.0%	-	7.044%
Other Contributions (A)	$ 807	$ 559	$ 247	$ 9,331	$ -	$ 2,130	$ 2,738	$ 669	-
% of Covered Payroll (A)	14.28%	20.13%	9.90%	1.63%	-	15.90%	22.04%	N/A	-
% of Covered Payroll (R)	(7)	(8)	(9)	(10)	-	(11)	(12)	N/A	-

(1) The amounts shown as the PBO ("Pension Benefit Obligation") are standardized disclosure measures of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the system on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the systems. The significant actuarial assumptions used in the annual evaluations are the assumptions used in the PBO determination.

(2) Retirees, beneficiaries receiving benefits and terminated employees not yet receiving benefits.

(3) Current employees - accumulated employee contributions including allocated investment earnings.

(4) This retirement plan is required to be fully funded and cannot pay benefits unless money is available. The State contributes 5% of fire insurance premium taxes collected. Contributions were not sufficient to fund future benefits and amortize the existing unfunded liability over a period of 30 years.

(5) Actual percentages exceed required percentages (unless otherwise footnoted) because contributions include amounts for buybacks.

(6) For members employed before July 1, 1975, contributions are 7.8% of salary; for members employed on or after July 1, 1975, and prior to July 1, 1979, contributions are 9% of salary; for members employed on or after July 1, 1979, contributions are 10.5% of salary.

(7) Other contributions include fees from drivers' licenses and vehicle registrations.

(8) Other contributions consist of District Court Fees equal to 34.71% of covered payroll and 25% of Supreme Court Fees. However, during the year ended June 30, 1994, actual contributions did not cover the year's normal cost.

(9) Other contributions include all collections from fines and forfeited bonds related to fish and game law violations.

(10) Other contributions include loans receivable from various state agencies of approximately $1.8 million to finance the early retirement incentive granted by the 1993 Montana State Legislature. Payment for this service may be made over a period of time not to exceed 10 years.

(11) The $2,130,000 contribution by the State equals 15.66% of active policemen's salaries and is contributed from a premium tax on motor vehicle property and casualty insurance policies. A $2,100,000 supplemental amount for post-retirement benefits for members with a minimum of 20 years of service at retirement is not included. The State's contribution is 52.6% of total Employer and Other contributions.

(12) The $2,738,000 contribution by the State equals 23.27% of total firefighters' compensation and is contributed from a premium tax on insurance risks. A $1,064,123 supplemental amount for post-retirement benefits for retired members is not included. The State's contribution is 62.9% of total Employer and Other contributions.

D. Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Trend information is available starting in fiscal year 1988 for HPORS, JRS, GWRS, PERS, TRS, MPORS, FURS, and SRS and can be found in the annual reports of these retirement systems.

REQUIRED SUPPLEMENTARY INFORMATION
Analysis of Funding Progress

		PRIMARY GOVERNMENT							COMP UNIT
		HPORS	JRS	GWRS	PERS	SRS	MPORS	FURS	TRS
Net Assets Available for Benefits Expressed as a % of PBO (Percentage Funded)	1992...	54.7%	70.8%	88.7%	77.8%	126.5%	52.9%	41.6%	57.9%
	1993...	57.0%	75.6%	88.2%	78.8%	128.2%	56.3%	43.8%	59.5%
	1994...	58.6%	80.2%	91.1%	81.4%	123.5%	58.6%	45.1%	63.0%
Unfunded PBO, Expressed as a % of Annual Covered Payroll	1992...	463.8%	245.0%	65.2%	54.2%	63.2%*	322.9%	545.3%	143.6%
*Assets in Excess of PBO, Expressed as a % of Annual Covered Payroll	1993...	461.4%	208.5%	69.4%	53.1%	70.6%*	293.1%	518.1%	141.2%
	1994...	460.5%	171.6%	56.7%	47.8%	61.0%*	275.1%	505.5%	133.2%
Employer Contributions Expressed as a % of Annual Covered Payroll	1992...	36.28%	6.00%	7.15%	6.42%	7.67%*	13.92%	13.02%	8.41%
	1993...	27.58%	6.00%	7.15%	6.70%	7.67%*	14.36%	13.02%	8.55%
	1994...	27.43%	5.98%	7.78%	6.70%	7.57%*	14.31%	13.00%	8.89%

7. SELF-INSURANCE FUNDS

The State of Montana maintains several self-insurance plans. A brief description of each plan and the method of recording transactions are discussed below:

A. Group Employee Comprehensive Medical and Dental Plan - This plan is fully self-insured, with the State assuming all the risk for claims incurred by employees of the State, elected officials, retirees and their dependents. There is no third party coverage. Premiums are collected through payroll deductions, deductions through the Public Employees' Retirement System and self-payment and are recorded as revenue in the Employees' Group Benefits Internal Service Fund.

At June 30, 1994, incurred but not reported claims were estimated to be $6,117,027 based on a formula provided by Martin E. Segal Company, a consulting actuarial firm. A liability is recorded in the accompanying financial statements for these estimated claims.

Postemployment Benefits - In addition to the pension benefits described in Note 6, Retirement Systems, the State provides 18 to 36 months optional postemployment healthcare benefits in accordance with Public Law 99-272, known as the Federal Consolidated Omnibus Reconciliation Act (COBRA) to the following employees and dependents who elect to continue and pay administratively established premiums: (1) employees who are receiving employee healthcare benefits at the time they discontinue State employment, and (2) dependents who lose dependent eligibility. At June 30, 1994, 139 individuals were receiving these benefits.

In accordance with section 2-18-704, MCA, the State also provides optional postemployment healthcare benefits to the following employees and dependents who elect to continue coverage and pay administratively established premiums: (1) employees who retire under applicable retirement provisions and (2) surviving dependents of deceased employees. Retirement eligibility criteria differ by retirement system (See Note 6). Administratively established premiums vary between $114 and $269 per month depending on coverage ranging from retirees only to retirees, spouses, and children, Medicare or non-Medicare eligible. The State acts as secondary payor for Medicare-eligible claimants. As of June 30, 1994, 2,766 retirees were receiving healthcare benefits.

After an annual $200 deductible, the State reimbursed 75% of the first $3,000 in validated medical claims and 100% of any remaining validated claims in the year. Dental claims were reimbursed at 50% to 100% depending on the services provided. The State funds claims on a pay-as-you-go basis. During the fiscal year, expenditures of $6,938,883 were recognized for postemployment healthcare benefits. Of this amount, $6,161,122 was covered by former employees' premium contributions leaving $777,761 of claims in excess of premium revenue that was paid by the State.

B. Montana University System (MUS) Group Benefits Plan - This plan was authorized by the Regents to provide medical, dental, and vision insurance coverage to employees of the Montana University System, as well as their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured. United of Omaha is the claims administrator on the plan. Managed Care Montana (Blue Cross/Blue Shield of Montana) has a contract for utilization management. The utilization management program consists of hospital pre-authorization, case management and medical necessity review. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance Internal Service Fund.

The incurred but not reported claims are estimated to be $3,200,000 as of June 30, 1994. A liability is recorded in the accompanying financial statements for these estimated claims.

Postemployment Benefits - In addition to the pension benefits described in Note 6, Retirement Systems, the Montana University System (MUS), under State statute 2-18-702, MCA, provides postretirement health insurance benefits. Eligible employees must receive a retirement benefit from the Teachers Retirement System (TRS), Public Employees Retirement System (PERS), or an annuity under the Optional Retirement Plan. Spouses, unmarried dependent children, and surviving spouses are also eligible.

Administratively established premiums vary between $120 and $338 per month and are revised annually. Medicare eligible plan members are assumed to be Medicare-insured. After an annual $250 deductible, MUS reimburses 80% of the first $3,000 in medical claims in excess of $600 and 100% thereafter. The plan automatically reduces claim reimbursement for members eligible for Medicare even if not enrolled in Medicare. As of June 1994, 1,118 retirees are enrolled in the MUS plan.

Funding for the retiree health plan is on a pay-as-you-go basis. Based on amounts recorded through June 1994, estimated expenditures of $2,702,675 were recognized for postemployment healthcare benefits. Of this amount, $2,197,183, was covered by premiums paid by retirees and $505,492 was paid by the MUS.

C. Property & Casualty Insurance Plans - This self-insurance plan provides coverage for general liability, automobile liability, automobile physical damage, retail liquor stores inventory and State-administered foreclosure housing units. The State self-insures the $150,000 deductible per occurrence for most property insurance as well as various deductible amounts for other state property. The state also self-insures against losses of equipment below $150,000 of value, with state agencies paying the first $1,000. Commercial property insurance protects over $1.7 billion of state owned buildings and contents. The state property insurance includes earthquake and flood protection to $100 million annually with deductibles of $1 million for earthquake and $500,000 for flood per occurrence. Premiums are collected from all State agencies including Component Units and recorded as revenue in the Administration Insurance Internal Service Fund.

Based on the most recent actuarial report, prepared by Tillinghast, a Towers Perrin Company, and issued for the accident period 7/1/88 -6/30/94, a liability of $17,421,104 is recorded in the accompanying financial statements for estimated claims including those incurred but not reported.

8. DEFERRED COMPENSATION PLAN

Since 1976, the State of Montana has offered a deferred compensation plan which allows employees to set aside a portion of their salary each payday towards retirement while deferring the State and Federal income taxes until future years. The payroll deferrals are invested with Nationwide Insurance. All employees of the State are eligible to participate. The plan operates under the sanction of both State and Federal laws (Title 19, Chapter 50, MCA; Section 457 of the Internal Revenue Code). The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts and all income attributable to those amounts, property or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the State (without being restricted to the provisions of benefits under the plan), subject only to the claims of the State's general creditors. In the past, the plan assets have been used for no purpose other than to pay benefits. The State believes it is unlikely it will use the assets to satisfy the claims of general creditors in the future because of the contractual arrangement with Nationwide Insurance and the State's obligation to participants for their account balance. State statute provides that the State and its political subdivisions are not liable for any investment losses incurred by any eligible deferred compensation plan. However, the State does have the duty of care required of an ordinary prudent investor. As of June 30, 1994, the net assets of the plan available for benefits totaled $99.737 million.

The following table provides a summary of the increases and decreases of the Employees Deferred Compensation Agency Fund for the fiscal year ended June 30, 1994, (in thousands):

Fund Assets (at market value), July 1, 1993	$ 89,896
Deferrals of compensation	9,930
Earnings and adjustment to market value	6,415
Payments to eligible participants and beneficiaries	(6,046)
Administrative expenses	(458)
Fund Assets (at market value), June 30, 1994	$ 99,737

9. RISK MANAGEMENT–PUBLIC ENTITY RISK POOLS

There are two Primary Government public entity risk pools and two Component Unit public entity risk pools that are reported within the Enterprise Fund Type: Primary Government pools include Hail Insurance and Subsequent Injury Funds; Component Unit pools include State Compensation Insurance (New Fund) and State Compensation Insurance (Old Fund). In all of these funds there are no significant reductions in insurance coverage from the prior year, nor any insurance settlements exceeding insurance coverage. None of these funds have acquisition costs; therefore, no cost is amortized for the period. Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. These funds use the accrual basis of accounting. By statute, these funds cannot invest in common stock. Investments are recorded at amortized cost. Premiums and discounts are amortized using the straight-line method over the life of the securities.

A. Hail Insurance - Any Montana producer engaged in growing crops subject to destruction or damage by hail may participate in the hail insurance program. Approximately 1,967 producers participated in this program in 1993 and 1994. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs and claims paid for hail damage. Depending upon the actuarial soundness of the reserve fund and the damage in a season, producers may receive a refund. Anticipated investment income is considered in computing a premium deficiency of which there is none.

A claim must be submitted to the State Board of Hail Insurance within fourteen days of a loss occurrence. It must be indicated whether the grain is stemming, in the boot, heading out, in the milk, in the stiff dough, ready to bind, or combine. If beans, peas or other crops are damaged, the growth-stage must also be indicated. Inspection of a crop will occur as promptly as possible after claim receipt and no later than September 30. The insurance only covers loss or damage to growing grain which exceeds 5% destruction by hail.

The fund recorded a liability of $707,892 based on claims submitted for losses through June 30, 1994. Any crop insurance liability is paid to producers within one year of occurrence; therefore, liabilities are not discounted. The fund is protected through a reserve fund balance and has no excess insurance, reinsurance, or annuity contracts.

B. Subsequent Injury - This fund provides benefits to workers certified as vocationally handicapped who are injured on the job and entitled to benefits under the Workers' Compensation or Occupational Disease Act at the time of injury. The liability of the insurer for payment of compensation benefits is limited to 104 weeks of benefits actually paid. This fund will reimburse the insurer for all benefits paid after this 104 week time period. In Montana, there are 1,722 individuals certified as vocationally handicapped.

Workers' compensation insurance premium experience modification factors are influenced by the 2 year limitation and employers may experience an insurance premium reduction. Therefore, this fund provides employers with a potential incentive for hiring the certified vocationally handicapped.

This fund makes no provision for insured events of the current year. All Montana insurers are annually assessed an amount of up to 5% of each insurer's compensation payments for the previous fiscal year. An estimated liability is recorded based on a projected cost (case-by-case) analysis of each injured, certified, vocationally handicapped worker. As of June 30, 1994 the amount of this liability is estimated to be $968,000.

C. State Compensation Insurance (New Fund) - Liability coverage to employers for injured employees who are insured under the Workers' Compensation and Occupational Disease Acts of Montana and workers' compensation claims occurring on or after July 1, 1990, are reported in the State Compensation Insurance Fund (New Fund). The New Fund must insure any employer who desires coverage. At fiscal year-end, approximately 26,100 employers were insured with the New Fund. Montana state governmental agencies must obtain their workers' compensation coverage through the New Fund. Anticipated investment income is considered for computing a premium deficiency and employers must pay premiums to the New Fund within specified timeframes.

An actuarial study prepared by Tillinghast, a Towers Perrin company, as of June 30, 1994, has estimated liabilities and the ultimate cost of settling claims that have been reported but not settled and claims that have been incurred but not reported. Because actual claim costs depend on such complex factors as inflation and changes in the law, claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. At June 30, 1994, $509,019,962 of unpaid claims and claim adjustment expenses are presented at their net present value of $373,223,095. These claims are discounted at an annual rate of 5.75% (See Note 14).

The New Fund uses reinsurance agreements to reduce its exposure to large losses. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Fund as direct insurer. The New Fund did not deduct any claim liabilities related to potential reinsurance recoverable. When the New Fund purchases annuity contracts, the claim is settled in full and on a final basis; all liability of the New Fund is terminated.

Statute requires the New Fund set premiums at least annually at a level sufficient to ensure adequate funding of the insurance program during the period the rates will be in effect.

D. State Compensation Insurance (Old Fund) - The liability and payment of workers' compensation claims for incidents occurring before July 1, 1990, are reported in the State Compensation Insurance Fund (Old Fund). Funding for claim payments is provided by old fund liability taxes (OFLT) imposed on employers' payroll (0.5%), employees' wages (0.2%) and sole proprietors and subchapter S shareholders' distributive income (0.1%). The OFLT for sole proprietors and shareholders increased to 0.2% beginning January 1, 1994. The OFLT will provide funding for old fund claims and bond payments (see Note 12 G(3)). An actuarial study prepared by Tillinghast, a Towers Perrin company, as of June 30, 1994, was used to estimate liabilities and the ultimate cost of settling claims that have been reported but not settled and claims that have been incurred but not reported. At June 30, 1994, $339,485,647 of unpaid claims and claim adjustment expenses are presented at face value. This fund generates little interest earnings, does not discount estimated claims liabilities, and does not compute a premium deficiency (See Note 14).

E. Changes in Claims Liabilities For the Past Two Years - As indicated above, these funds establish liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following tables present changes (in thousands) in those aggregate liabilities during the past two years. All information in these tables is presented at face value and has not been discounted.

Primary Government	HAIL INSURANCE		SUBSEQUENT INJURY	
	1994	1993	1994	1993
Unpaid claims and claim adjustment expenses at beginning of year	$ 495	$ 4	$1,061	$1,222
Incurred claims and claim adjustment expenses:				
Provision for insured events of the current year	2,226	1,449	-	-
Increases in provision for insured events of prior years	(33)	-	103	73
Total incurred claims and claim adjustment expenses	2,193	1,449	103	73
Payments:				
Claims and claim adjustment expenses attributable to insured events of the current year	(1,518)	(954)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	(462)	(4)	(196)	(234)
Total payment	(1,980)	(958)	(196)	(234)
Total unpaid claims and claim adjust. exp. at end of the year	$ 708	$ 495	$ 968	$1,061

Component Units	STATE COMPENSATION INSURANCE (NEW FUND)		STATE COMPENSATION INSURANCE (OLD FUND)	
	1994	1993	1994	1993
Unpaid claims and claim adjustment expenses at beginning of year	$404,706	$291,402	$365,249	$406,719
Incurred claims and claim adjustment expenses:				
Provision for insured events of the current year	184,039	170,792	-	-
Increases in provision for insured events of prior years	(3,952)	14,422	2,975	7,500
Total incurred claims and claim adjustment expenses	180,087	185,214	2,975	7,500
Payments:				
Claims and claim adjustment expenses attributable to insured events of the current year	(18,693)	(19,087)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	(57,080)	(52,823)	(28,739)	(48,970)
Total payment	(75,773)	(71,910)	(28,739)	(48,970)
Total unpaid claims and claim adjust. exp. at end of the year	$509,020	$404,706	$339,485	$365,249

F. **Risk Management Trend Information**

The following table only presents risk management trend information for the State Compensation Insurance (New Fund). Only the New Fund has a three to five year development cycle contemplated by GASB Statement 10. The State Compensation Insurance (Old Fund) does not charge a premium for its services; its funding source is the old fund liability tax. The Hail Insurance Fund pays claims within a calendar year cycle that parallels the growing season from spring planting to fall harvesting; therefore, it has no three to five year development cycle. State statute limits the payment of claims and the collection of premiums (and penalties) for the Subsequent Injury Fund from any developmental cycle.

The table below illustrates how the earned revenues (net of reinsurance) of the New Fund and its investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the fund as of the end of the fiscal year (in thousands). Line 3 shows the fund's incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the

contract occurred (called policy year). Section 4 shows the cumulative amounts paid as of the end of successive years for each policy year. Section 5 shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. Line 6 compares the latest reestimated incurred claims amount to the amount originally established (Line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. This table will be expanded and revised as data for successive policy years develops.

	STATE COMPENSATION INSURANCE (NEW FUND)			
	1991	1992	1993	1994
1. Net earned required contribution and investment revenues	$ 105,542	$132,423	$179,359	$184,412
2. Unallocated expenses including overhead	6,048	8,232	9,325	9,090
3. Estimated incurred claims and expenses, end of policy year	137,237	183,425	186,480	199,890
4. Paid (cumulative) as of:				
End of policy year	17,618	20,244	18,347	18,693
One year later	44,335	50,576	46,343	
Two years later	64,079	68,837		
Three years later	74,901			
5. Reestimated incurred claims and expense:				
End of policy year	137,237	183,425	186,480	199,890
One year later	166,980	184,968	184,030	
Two years later	160,272	175,218		
Three years later	151,554			
6. Increase (decrease) in estimated incurred claims and expense from end of policy year	14,317	(8,207)	(2,450)	

10. COMMITMENTS

A. Highway Construction - At June 30, 1994, the Department of Transportation had contractual commitments of approximately $102.3 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matching state special revenue funds.

B. Capital Construction - At June 30, 1994, the Department of Administration, Architecture & Engineering Division, had commitments of approximately $28.8 million for capital projects construction. The primary government will fund $21.7 million of these projects with the remaining $7.1 million coming from higher education funds.

C. Proprietary Fund Commitments - Fixed budgets are legally adopted in Enterprise and Internal Service Funds (excluding depreciation, compensated absences and bad debt expense). Appropriations may be committed for goods/services that are not received as of fiscal year-end. These executory commitments are included in unreserved retained earnings in the accompanying financial statements as follows (in thousands):

Primary Government

Enterprise Funds	AMOUNT
Liquor Stores	$ 62
Hail Insurance	2
Uninsured Employers	14
Historical Society Publications	32
Local Government Audits	1
Sec. of State Business Serv.	43
Subtotal-Enterprise Funds	$ 154
Internal Service Funds	
Highway Equipment	$ 2,298
Employee Group Benefits	27
ISD	249
FWP Equipment	134
Motor Pool	11
Admin. Property & Supply	232
Publications & Graphics	23
Buildings & Grounds	297
Labor Central Services	7
Commerce Central Services	9
DHES Indirect Cost Pool	52

Internal Service Funds	
FWP Warehouse Inventory	$ 8
Investment Division	9
OPI Central Services	24
Records Management	5
Subtotal-Internal Service Funds	$ 3,385
Total-Primary Government	$ 3,539
Component Units	
Housing Authority	$ 11
State Compensation Insurance (New Fund)	660
Subtotal-Component Units	$ 671
Total- Proprietary Fund Types-Reporting Entity	$ 4,210

11. LEASES/INSTALLMENT PURCHASES

The State has entered into various capital and operating leases for land, buildings, equipment and computer software. Lease contracts are required by law to contain a clause indicating continuation of the lease is subject to funding by the Legislature. It is expected that in the normal course of operations most of these leases will be replaced by similar leases.

A. **Capital Leases/Installment Purchases** - Changes in capitalized leases/installment purchases follow (in thousands):

Primary Government	Balance July 1, 1993	Additions (Deductions)	Balance June 30, 1994
General Long-Term Obligations	$ 1,987	$ (460)1	$ 1,527
Proprietary Fund Types			
Enterprise Fund	$ -	$ 113	$ 113
Internal Service Fund	1,907	263	2,170
Total Proprietary	$ 1,907	$ 376	$ 2,283
Total-Primary Government	$ 3,894	$ (84)	$ 3,810
Component Units			
Pension Fund	$ 77	$ 28	$ 105
Higher Education Funds	$ 3,444	$ (356)	$ 3,088
Total-Component Units	$ 3,521	$ (328)	$ 3,193
Total Capitalized Leases/ Installment Purchases	$ 7,415	$ (412)	$ 7,003

(1) This amount consists of $370,000 as additions; $3,000 of additions as adjustments; and $833,000 as deductions.

Future minimum lease payments under capital leases/installment purchases are as follows (in thousands):

Fiscal Year Ending June 30	Primary Government: General Long-Term Obligations	Primary Government: Proprietary Fund Types: Enterprise	Primary Government: Proprietary Fund Types: Internal Service	Component Units: Pension	Component Units: Higher Education Funds	Totals
1995	$ 611	$ 60	$ 1,157	$ 61	$1,459	$ 3,348
1996	740	62	669	57	1,294	2,822
1997	358	-	352	-	357	1,067
1998	75	-	181	-	189	445
1999	43	-	-	-	45	88
After 1999	-	-	-	-	-	-
Total minimum payments	$ 1,827	$ 122	$ 2,359	$ 118	$3,344	$ 7,770
Less: Interest	(300)	(9)	(189)	(13)	(256)	(767)
Present value of minimum payments	$ 1,527	$ 113	$ 2,170	$ 105	$3,088	$ 7,003

B. **Operating Leases** - Total rental payments for operating leases in fiscal year 1994 were $5,026,000. Future rental payments for operating leases are as follows (in thousands):

Fiscal Year Ending June 30	Amount
1995	$ 5,730
1996	4,423
1997	3,901
1998	2,951
1999	2,460
After 1999	4,575
Total future rental payments	$24,040

12. **STATE DEBT**

A. General Information - The State has no constitutional limit on its power to issue obligations or incur debt other than a provision that no debt may be created to cover deficits incurred because appropriations exceeded anticipated revenues. The Board of Examiners (consisting of the Governor, Secretary of State and Attorney General) is authorized, pursuant to various enabling acts, to issue bonds and notes of the State.

B. Short-Term Debt - The Board of Examiners, upon recommendation of the Department of Administration, may issue notes in anticipation of the receipt of taxes and revenues. No notes may be issued to refund outstanding notes. The notes must be redeemed by the end of the fiscal year in which issued.

The Board of Investments (BOI) of the State of Montana is authorized to issue Municipal Finance Consolidation Act Bonds which may not aggregate more than $50 million. The purpose of the bonds is to provide funds for the BOI to make loans to eligible local government units. The bonds are not in any way a debt or liability of the State of Montana. The bonds are limited obligations of the BOI payable solely from repayments of principal and interest on loans made by the BOI to participating local government units, investment income under the indenture and an irrevocable pledge by the BOI. The BOI has no taxing power. Bondholders may elect to have their bonds purchased by the Trustee on March 1 of each year until maturity. These issues are considered to be demand bonds and have been reclassified as short-term debt. In previous years these issues were included in the long-term debt section for Economic Development & Municipal Finance Consolidation Act Bonds. The amounts issued and outstanding at June 30, 1994, are as follows (in thousands):

Series	Amount Issued	Balance June 30, 1994
1987	$ 6,500	$ 750
1988	5,000	1,530
1991	5,000	4,920
1992	6,500	6,385
1994	7,500	7,500
TOTAL		$21,085

C. Long-Term Debt - The full faith, credit and taxing powers of the State are pledged for the payment of all general obligation debt. Revenue bonds and mortgage bonds are secured by a pledge from the facilities to which they relate and by certain other revenues, fees and assets of the State and the various colleges and universities. Long-term debt (excluding bonds/notes of Enterprise Funds and Internal Service Funds discussed elsewhere in this footnote; Leases - Note 11; and Compensated Absences - Note 1) of the State at June 30, 1994, is as follows (in thousands):

General Obligation Debt	Series	Amount Issued	Interest Range (%)	Principal Payments FY 1995	Principal Payments In Year of Maturity (10)	Balance June 30, 1994
Highway Bldg Complex	1976	$ 7,400	5.0	$ 565	$ 600 (1996)	$ 1,165
Long-Range Bldg Program	1983B	39,330	7.75-8.0	195	195 (1995)	195
Long-Range Bldg Program	1985A	8,550	7.2-8.0	350	150 (2001)	1,375
Water Development Program (1)	1985B	1,000	7.2-7.6	140	140 (1995)	140
Renewable Resource Dev. (1)	1985C	1,100	7.2-7.6	200	200 (1995)	200
Water Development Program (1)	1985D	1,000	6.85-6.875	125	125 (1996)	250
Water Development Program (1)	1988	500	9.4	15	50 (2009)	435
Water Development Program (1)	1989B	500	8.55	15	50 (2010)	455
Long-Range Bldg Program	1989	3,540	6.25	795	795 (1995)	795
Water Development Program (1)	1991A	750	8.0-8.5	30	90 (2007)	700
Wastewater Treatment Works	1991B	2,595	5.0-6.8	70	215 (2014)	2,530
GO Refunding	1992	31,330	4.0-7.0	10,695	390 (2010)	29,855
Energy Conservation Program (2)	1993A	1,500	2.5-4.75	125	180 (2004)	1,500
Long-Range Bldg Program	1993B	3,185	2.5-4.25	340	310 (2004)	3,185
Renewable Resource Development(1)	1993C	750	3.5-5.65	60	95 (2004)	750
Long-Range Bldg Program	1994A	22,540	4.2-6.0	730	1,725 (2014)	22,540
Total General Obligation Debt		$125,570		$14,450		$ 66,070

Special Revenue Bonds	Series	Amount Issued	Interest Range (%)	Principal Payments FY 1995	In Year of Maturity (10)	Balance June 30, 1994
Department of Transportation	1987	$ 37,955	5.5-6.25	$ 8,250	$9,795 (1998)	$ 36,000
Water Conservation (3)	-	535	3.463-5.0	12	3 (2016)	314
Water Dev. Program (4)	1987C	1,215	6.25-7.6	40	120 (2008)	1,030
Water Dev. Program (4)	1988A	1,720	6.75-7.3	55	160 (2009)	1,490
Water Dev. Program (4)	1989A	6,000	6.1-6.9	195	520 (2010)	5,320
Broadwater Power Project (4)(6)	1990A	3,800	9.5	285	505 (2002)	3,080
Water Development Program (4)	1990B	9,625	6.2-7.2	405	955 (2007)	8,050
Broadwater Power Project (4)(5)	1991A	21,735	6.4-6.875	-	2,135 (2018)	21,735
Water Development Program (4)	1992A	11,955	3.0-6.1	710	1,250 (2006)	11,270
Water Development Program (4)	1992B	9,375	2.8-6.0	280	795 (2013)	9,105
Department of Transportation	1993	112,040	2.5-5.2	1,800	15,185 (2006)	110,840
Total Special Revenue Bonds		$215,995		$12,032		$208,234
Middle Creek Dam Project (7)		$ 2,867	8.125	$ 29	1,581 (2032)	$ 3,150
Treasure State Endowment (8)		4,134	5.85	-	808 (2001)	4,134
Natural Resource Damage Lit. Pro. (9)		5,937		-		5,937
Total Notes Payable		$ 12,938		$ 29		$ 13,221
TOTAL GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP						$287,525

(1) All Water Development Program Bonds and the Renewable Resource Development Bonds are secured additionally by a pledge of and payable from certain coal severance taxes. Series 1985B, 1985C, 1988, 1989B, 1991A and 1993C bonds are also secured by a pledge of loan repayments from loans made from the bond proceeds.
(2) Bonds issued for financing the design, construction and installation of energy conservation projects at various State buildings.
(3) Bonds sold to Farmers Home Administration.
(4) Bonds issued by the Department of Natural Resources and Conservation (DNRC) and backed by a pledge of coal severance taxes.
(5) First payment of $795,000 is due in 2003.
(6) Bonds were sold to the Montana Board of Investments.
(7) U.S. Bureau of Reclamation loan to Montana Dept. of Natural Resources & Conservation. The outstanding balance includes $282,618 of interest owed.
(8) Board of Investments Treasure State Endowment loan from the Coal Tax Trust Fund to the State of Montana Department of Commerce. First payment of $199,563 is due in 1996.
(9) Board of Investments loan to the Department of Justice for the Natural Resource Damage Litigation Program. Interest accrues at .5% over the yield on the most recent issue of United States Government 30 Year Bonds. Loan repayment is secured by a pledge of amounts to be recovered in the ongoing litigation with Atlantic Richfield Company.
(10) Year of Maturity refers to fiscal year.

Board of Regents Issues Higher Education Units	Series	Amount Issued	Interest Range (%)	Principal Payments FY 1995	In Year of Maturity	Balance June 30, 1994
University of Montana (U of M)	1993A	$47,095	2.3-5.0	$1,130	$1,745 (2016)	$45,379
Montana State University (MSU)	1985B/1986A/1987A/1993A	52,312	2.6-8.65	1,075	11,115 (2017)	46,932
Montana College of Mineral Science & Technology (TECH)	1986A	6,745	6.6-7.625	175	1,070 (2010)	5,660
Eastern Montana College (EMC)	1994C	9,360	3.3-6.0	595	425 (2007)	9,360
Northern Montana College (NMC)	1994C	2,890	3.3-6.0	70	100 (2015)	2,890
Western Montana College (WMC)	1993A	955	2.2-4.9	60	40 (2009)	926
Total Higher Education Bonded Debt		$119,357		$3,105		$111,147
Higher Ed Nonbonded Debt						
U of M Mortgage Payable		$ 204	Variable	$ 6	$ 5 (2012)	$ 181
MSU Thackeray Note		350	5.0	111	122 (1997)	350
EMC P.E. Building Note		285	5.69	46	55 (1998)	200
NMC Gas Distribution Note		31	5.6	10	11 (1996)	20
NMC INTERCAP Program Note		620	Variable	54	326 (2000)	620
WMC INTERCAP Program Note		51	Variable	21	11 (1996)	31
WMC Mortgage Payable		70	6.5	3	5 (2011)	70
Billings Vo-Tech Center Note		876	None	111	95 (1999)	508
Missoula Vo-Tech INTERCAP Program Note		96	Variable	9	11 (2004)	96
Total Higher Education Nonbonded Debt		$ 2,583		$ 371		$ 2,076
TOTAL HIGHER EDUCATION FUNDS						$113,223

Debt service requirements (principal and interest) for long-term notes/bonds payable reported in the General Long-Term Obligations Account Group and Higher Education Funds are as follows (in thousands):

Fiscal Year Ending June 30	General Obligation Debt	Special Revenue Bonds	Higher Ed Revenue Bonds	Non-Bonded Debt	Total Requirements
1995	$ 16,918	$ 177	$ 7,756	$ 447	$ 25,298
1996	15,934	23,525	8,104	407	47,970
1997	6,696	24,035	7,364	382	37,477
1998	3,411	23,941	7,977	251	35,580
1999	3,674	23,826	8,004	196	35,700
2000+	41,032	221,563	77,878	676	341,149
Totals	$ 87,665	$317,067	$117,083	$ 2,359	$ 523,174

A summary of changes in long-term notes/bonds payable reported in the General Long-Term Obligations Account Group and Higher Education Funds for the fiscal year ending June 30, 1994, are as follows (in thousands):

	Balance July 1, 1993	Issued	Retired	Balance June 30, 1994
General Obligation Debt	$ 43,945	$ 26,475	$ 4,350	$ 66,070
Special Revenue Debt	216,979	10,072	5,596	221,455
Higher Ed Revenue Bonds	68,599	85,187	42,639	111,147
Higher Ed Nonbonded Debt	3,661	1,137	2,722	2,076
Totals	$ 333,184	$ 122,871	$ 55,307	$ 400,748

D. Early Bond Redemption

Montana State University (MSU) pooled available Auxiliary funds of $12.23 million and the Museum of the Rockies contributed $2 million to provide for the early redemption of $12.33 million of the 1986 Series A Bonds. On November 9, 1993, Montana State University deposited $14.23 million with an escrow agent and invested in federal securities to provide for future debt service payments until the bonds maturing on November 15, 2007, through November 15, 2009, are redeemed by optional redemption on November 15, 1996. The transaction met the requirements of an in-substance defeasance and the 1986 Series A Bonds maturing on November 15, 2007, through November 15, 2009, were removed from MSU's financial statements. MSU recognized an accounting loss of $1,903,313.

E. Early Retirement Benefits Note

The 1993 Montana State Legislature granted an early retirement incentive. The incentive consisted of an additional three years of employer and employee contributions paid by the employer agency to the State of Montana Public Employees' Retirement System. The payments may be made over a period of time not to exceed nine years at an interest rate of eight percent.

FUND	Principal Payments FY 1995	Principal Payments In Year of Maturity	Balance June 30, 1994
General Long-Term Obligation	$ 65	$ 120	$ 809
Enterprise	9	17	117
Internal Service	2	2	13
Higher Education Units	26	49	329
TOTAL	$ 102	$ 188	$1,268

F. Refunded Bonds

On November 9, 1993, Montana State University (MSU) issued $24.91 million of Facilities Improvement and Refunding Revenue Bonds with an interest rate of 2.6% graduating to 5.05%. MSU used $4.58 million of the net bond proceeds along with certain other funds available to advance refund $745,000 of the 1985 Series B Bonds and $3,220,000 of the 1986 Series A Bonds. The refunded bonds had interest rates ranging from 7.1% to 8.65%. The purpose of the refunding was to take advantage of savings that resulted from lower interest rates. $4.58 million of the net proceeds from the issuance of the 1993 Series A Facilities Improvement and Refunding Revenue Bonds were deposited with an escrow agent and invested in U.S. government noncallable direct obligations until the 1985 Series B Bonds, maturing on November 15, 1996, are redeemed by optional redemption on November 15, 1995, and the 1986 Series A Bonds, maturing from November 15, 1997, through November 15, 2009, are redeemed by optional redemption on November 15, 1996. The advance refunding met the requirements of an in-substance defeasance and the 1985 Series Bonds, and the 1986 Series A Bonds, were removed from MSU's financial statements. MSU recognized an accounting loss of $619,159 from the advance refunding. The advance refunding resulted in a reduction of total debt service for MSU of $6,707,200. The economic gain calculated using an effective interest rate of 5.15% is $735,809.

On November 10, 1993, the University of Montana (U of M) issued $47,095,000 of Facilities Improvement and Refunding Revenue Bonds with an interest rate of 2.3% graduating to 5%. U of M used $21.25 million of the net bond proceeds along with certain other funds available to advance refund the 1985 Series A Revenue Bonds and the 1987 Series B Stadium Improvement Revenue Bonds. The refunded bonds had interest rates ranging from 6% to 6.7%. The purpose of the refunding was to take advantage of savings that resulted from lower interest rates. $21.25 million of the net proceeds from the issuance of the 1993 A Facilities Improvement and Refunding Revenue Bonds along with certain other funds available were deposited with an escrow agent and invested in U.S. government securities to provide for all future debt service payments on the 1985 Series A and the 1987 Series B Revenue Bonds. The advance refunding met the requirements of a legal defeasance and the 1985 Series A Bonds and the 1987 Series B Bonds were removed from U of M's financial statements. The advance refunding resulted in the recognition of an accounting loss of $2,095,998. U of M reduced total debt service by $3,067,520 and obtained an economic gain of $2,100,944.

On November 10, 1993, the University of Montana (U of M) issued $955,000 of Facilities Improvement and Refunding Revenue Bonds for Western Montana College of the U of M with an interest rate of 2.3% graduating to 5%. Western Montana College used $523,000 of the net bond proceeds along with certain other funds available to advance refund the 1966 Housing and Dining System Bonds and the 1967 Student Building Fee and Land Grant Income Revenue Bonds. The refunded bonds had interest rates ranging from 2.75% to 5.25%. The purpose of the refunding was to take advantage of savings that resulted from lower interest rates. $523,000 of the net proceeds and certain other funds available were deposited with an escrow agent and invested in U.S. government securities to provide for all future debt service payments for the 1966 Bonds and 1967 Bonds. The advance refunding met the requirements of a legal defeasance and the 1966 Bonds and the 1967 Bonds were removed from Western Montana College's financial statements. The advance refunding resulted in a reduction of total debt service for Western Montana College of $58,357 and obtained an economic gain of $51,747.

On June 16, 1994, Montana State University (MSU) issued $9.36 million of Facilities Acquisition and Improvement Revenue Bonds for Eastern Montana College (EMC) with an interest rate of 3.3% graduating to 5.75%. EMC used the net bond proceeds along with certain other funds available to advance refund the 1985 Series B Facilities Improvement Revenue Bonds and the 1988 Series A Facilities Refunding Revenue Bonds respectively. The refunded bonds had interest rates ranging from 5.25% to 8.375%. The purpose of the refunding was to take advantage of savings that resulted from lower interest rates. The net proceeds from the issuance of the 1994 Series C Facilities Acquisition and Improvement Revenue Bonds were deposited with an escrow agent and invested in U.S. government noncallable direct obligations until the bonds maturing on and after October 1, 1998, and December 15, 1998, are redeemed by optional redemption on October 1, 1997, and June 15, 1998, respectively. The outstanding bonds maturing before October 1, 1997, will be paid by the escrow agent on their normal payment dates. The advance refunding met the requirements of a legal defeasance and the 1985 Series B Bonds and the 1988 Series A Bonds were removed from EMC's financial statements. Although the advance refunding resulted in the recognition of an accounting loss of $564,486 for the fiscal year ended June 30, 1994, EMC stabilized its debt service payments and obtained an economic gain of $182,399. The economic gain was calculated using an effective interest rate of 5.35%.

On June 16, 1994, Montana State University (MSU) issued $2.89 million of Facilities Acquisition and Improvement Revenue Bonds for the Northern Montana College (NMC) with an interest rate of 3.3% graduating to 5.75%. NMC used the net bond proceeds to advance refund the 1987 Series A Auxiliary Facilities and Student Building Fees Revenue Bonds which had an interest rate ranging from 7% to 8.75%. The purpose of the refunding was to take advantage of savings that resulted from lower interest rates. The net proceeds from the issuance of the 1994 Series C Facilities Acquisition and Improvement Revenue Bonds were deposited with an escrow agent and invested in U.S. government noncallable direct obligations until the bonds maturing on and after October 1, 1998, and December 15, 1998, are redeemed by optional redemption on October 1, 1997, and June 15, 1998, respectively. The outstanding bonds maturing before October 1, 1997, will be paid by the escrow agent on their normal payment dates. The advance refunding met the requirements of a legal defeasance and the 1987 Series A Bonds were removed from NMC's financial statements. The advance refunding resulted in the recognition of an accounting loss of $94,072 for the fiscal year ended June 30, 1994. The economic gain calculated using an effective interest rate of 5.35% is $78,664.

In prior years, the State of Montana and the Board of Higher Education have issued general obligation and revenue refunding bonds, the proceeds of which were used to defease certain bond issues already outstanding. The proceeds of the refunding issues were placed in escrow accounts and invested in U.S. Treasury Obligations that, together with interest earned thereon, will be sufficient for future payment of principal and interest on the refunded issues. Accordingly, the debt is considered defeased for financial reporting purposes and the liability for the defeased bonds is not included in the financial statements. At June 30, 1994, the defeased bonds outstanding are as follows (in thousands):

General Obligation	$ 21,795
Special Revenue	127,450
Higher Education Revenue	88,239
Total	$237,484

G. Enterprise Funds

(1) Economic Development & Municipal Finance Consolidation Act Bonds (EDB) - This program is directed by the nine-member Board of Investments which is attached to the Department of Commerce for administrative purposes. This program assists Montana's small businesses and local governments in obtaining long-term, fixed rate financing through private Montana lending institutions. Outstanding obligations are as follows (in thousands):

Program	Series	Amount Issued	Interest Rate (%)	Principal Payments FY 1995	Principal Payments In Year of Maturity	Balance June 30, 1994
Industrial Development Revenue Bonds (Pooled Loan) (1)	1984A-G	$ 3,650	7.0-10.75	$ 155	$ 570 (2006)	$ 2,810
Industrial Development Revenue Bonds (Pooled Loan) (1)	1985A-K	3,160	6.75-10.1	95	395 (2007)	2,615
Municipal Finance Consolidation Act Bonds (Irrigation Program) (2)	1988	4,976	6.6-7.75	430	130 (2014)	5,095
Economic Development Bonds (Conservation Reserve Enhancement Program) (3)	1991A-B	7,380	10.0-11.2	1,050	435 (1999)	5,035
Municipal Finance Consolidation Act Bonds (4)	1991	6,234	4.75-6.5	724	294 (2005)	4,516
TOTAL BONDS PAYABLE		$25,400		$ 2,454		$20,071
Conservation Reserve Enhancement Program (CRP Notes) (3)		3,278	9.0-9.92	621	45 (2001)	3,697
TOTAL BONDS/NOTES PAYABLE		$28,678		$ 3,075		$23,768

(1) These bonds, which may not aggregate more than $75 million, are limited obligations of the Board of Investments payable solely from and secured by certain revenues and assets pledged pursuant to an Indenture of Trust. The bonds do not constitute a debt, liability or legal obligation of the State of Montana. However, if the balance in the "Capital Reserve Account A" falls below the indenture requirement, the Governor is required to request the Legislature to appropriate funds to restore the balance. The Legislature may, but is not legally obligated to, appropriate funds to correct any such deficiency. Principal payments (accrued interest to be added) are due each March 15. Series 1985 J ($665,000) and Series 1985 B ($775,000) were recalled on March 15 and December 15, 1988, respectively, without a gain or loss on extinguishment. Series 1985 L ($325,000) was recalled in March 1992, without a gain or loss on extinguishment.

(2) These bonds were issued to obtain funds for the Board of Investments, State of Montana, to purchase the refunding bonds of participating Irrigation Districts for the purpose of prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans. The Irrigation Bonds and the interest thereon are payable solely from the collection of a special tax or assessment levied against real property in the Irrigation District. The Irrigation Bonds are not obligations of the State of Montana. However, the Irrigation Bonds are limited obligations of the Board of Investments due to an irrevocable pledge to lend money for deposit by the Trustee of the Irrigation District Pooled Loan Program Reserve Account E in an amount equal to any deficiencies therein on any payment date. The indenture does not permit the issuance of additional bonds.

(3) These bonds and notes were issued for the purpose of providing funds for the Board of Investments, State of Montana, to make loans to participating farmers and ranchers under its Conservation Reserve Enhancement Program. The Series 1991 Bonds are not in any way a debt or liability of the State of Montana, and neither the full faith and credit, nor the taxing power of the State of Montana is pledged to the payment of the principal of or interest on the Series 1991 Bonds. However, the 1991 Bonds are limited obligations of the Board of Investments. The Bond Anticipation Notes which matured on November 15, 1992, were reissued to correspond with maturities per the underlying loans.

(4) These bonds were issued for the purpose of providing funds for the Board of Investments, State of Montana, to purchase the general obligation refunding bonds of 16 participating Montana School Districts. The School District Refunding Bonds and the interest thereon are payable from real property taxes levied within the school district. These bonds are limited obligations of the Board of Investments.

Debt service requirements (principal & interest) for EDB are as follows (in thousands):

1995	1996	1997	1998	1999	2000+	Totals
$ 5,038	$4,722	$4,569	$3,969	$3,225	$14,398	$35,921

(2) **Board of Housing (BOH) (Housing Authority) - Component Unit - Revenue Bonds** - The Montana Board of Housing is authorized to have an aggregate of $975 million of housing mortgage bonds outstanding. The bonds are payable from mortgage loan repayments and investment earnings. All bonds issued to date are secured by federally insured or guaranteed mortgages. Statutory provisions exist wherein the Governor shall include in the executive budget submitted to the legislature the sum required to fund possible future deficiencies in required reserves; however, the legislature is not legally required to appropriate funding for such deficiencies. None of the outstanding bonds were issued under these provisions.

BOH Revenue Bonds (net) outstanding at June 30, 1994, were as follows (in thousands):

Program	Series	Amount Issued	Interest Rate (%)	Principal Payments FY 1995	Principal Payments In Year of Maturity	Balance June 30, 1994
Single Family I	1977A	$ 21,470	4.5-8.0	$ 830	$ 1,850 (2009)	$ 10,660
	1977B	35,060	4.15-8.0	1,290	3,160 (2009)	17,780
	1978A	13,600	5.05-8.0	440	1,115 (2010)	7,090
	1987A	20,000	5.3-8.625	420	1,240 (2018)	10,445
	1987B1-B2	20,000	6.25-9.0	190	780 (2019)	9,390
	1988A1-A2	19,999	5.4-8.5	310	3,165 (2027)	12,756
Subtotal		$130,129		$ 3,480		$ 68,121
Single Family II	1979A	$100,000	5.1-6.6	$ 3,555	$ 7,700 (2011)	$ 46,340
	1983B	55,000	8.0-9.625	870	925 (2008)	16,875
	1983C	114,998	5.75-10.7	-	8,640 (2010)	20,869
	1984A	75,002	7.0-10.375	1,010	13,680 (2010)	22,633
	1985A	40,000	5.5-9.75	70	7,044 (2016)	12,243
	1985B	74,997	5.7-9.75	855	1,165 (2017)	12,515
	1992RA	22,520	5.65-6.5	-	40,000 (2033)	22,520
	1994A	25,725	3.1-6.1	740	615 (2025)	25,725
	1994B	40,815	3.8-6.9	1,255	1,300 (2025)	40,815
Subtotal		$549,057		$ 8,355		$220,535
Single Family III	1988B1-B2	25,000	6.2-8.9	235	1,060 (2021)	14,840
Single Family IV	1989A1-A2	25,000	7.0-9.2	195	1,340 (2021)	15,240
Single Family V	1990A1-A2	25,000	6.2-8.525	275	1,885 (2022)	17,980
Single Family V	1990B1-B2	25,000	6.2-8.5	265	1,915 (2022)	18,800
Single Family VII	1990C1-C2	25,000	6.55-8.95	245	1,625 (2022)	17,965
Single Family VIII	1991A1-A2	25,000	5.2-8.275	295	1,920 (2023)	21,240
Single Family IX	1991B1-B2	25,000	5.5-8.4	275	1,770 (2023)	21,770
Single Family X	1992A1-A2	25,000	4.45-7.85	285	1,685 (2024)	22,000
Multifamily	1978A	$ 4,865	6.125	$ 60	$ 645 (2020)	$ 4,365
	1992	9,725	2.95-6.55	150	150 (2024)	9,615
Subtotal		$ 14,590		$ 210		$ 13,980
TOTAL		$893,776		$14,115		$452,471
Unamortized bond premiums (net)						14
TOTAL BOH BONDS PAYABLE (net)						$452,485

Debt service requirements (principal & interest) for all BOH programs are as follows (in thousands):

1995	1996	1997	1998	1999	2000+	Total
$37,476	$44,152	$43,593	$42,884	$40,278	$789,809	$998,192

(3) **Payroll Tax Bonds (Workers' Compensation Program) - State Compensation Insurance - Old - Component Unit** - The Board of Investments of the State of Montana issued bonds for the purpose of funding the State's liability and cost in administering and paying claims for injuries resulting from accidents, prior to July 1, 1990, that are subject to the Montana Workers' Compensation Act and the Occupational Disease Act of Montana. The bonds are limited obligations of the State of Montana payable solely from and secured by certain payroll tax revenues collected by the Department of Revenue of the State of Montana.

Program	Series	Amount Issued	Interest Rate (%)	Principal Payments FY 1995	Principal Payments In Year of Maturity	Balance June 30, 1994
Payroll Tax Bonds	1991	$142,095	4.9-6.875	$2,150	$10,590 (2020)	$136,265
Variable Rate Payroll Tax Bonds(1)	1993	32,500	Variable	-	2,700 (2020)	32,500
		$174,595				$168,765
Less: Unamortized discount						(1,858)
TOTAL BONDS PAYABLE						$166,907

(1) The bonds bear interest at a weekly interest rate determined by BOI which shall equal .75% in excess of the most recent issue of the ten year United States Treasury Notes.

Debt service requirements (principal & interest) are as follows (in thousands):

1995	1996	1997	1998	1999	2000+	Totals
$13,112	$13,115	$13,111	$13,112	$13,112	$294,576	$360,138

H. No-Commitment Debt - Information is presented below for financing authorities participating in debt issues. The State has no obligation for this debt. Accordingly, these bonds and notes are not reflected in the accompanying financial statements.

(1) Montana Board of Investments (BOI) - The (BOI) is authorized to issue industrial revenue bonds to finance projects for qualifying borrowers. Assets and revenues of the borrower are pledged to repay the bonds. The industrial revenue bonds issued by BOI do not constitute a debt, liability, obligation or pledge of faith and credit of the State of Montana. At June 30, 1994, the BOI had issued industrial revenue bonds as follows (in thousands):

Project	Date of Issue	Amount Issued	Amount Outstanding
Butler Creek	July 1985	$ 350	$ 34
Farmers Union	August 1985	3,925	3,925
Winter Sports	December 1985	3,200	350
Bozeman Holiday Inn	October 1987	3,950	3,935
Colstrip	October 1989	60,800	60,800
BGI	July 1993	118,345	118,345
Total		$190,570	$187,389

(2) Beginning Farm Loan Program - The Montana Department of Agriculture is authorized to request issuance of bonds by the Montana Board of Investments to finance projects for beginning farmers within the State if it appears, after a properly noticed public hearing, that the project is in the public interest of the State. These non-recourse, industrial development revenue bonds do not constitute a debt, liability, or obligation of the State of Montana. The amount issued and outstanding at June 30, 1994, is as follows:

(1) Linger Project - issued $112,200; outstanding $10,643
(2) Jorgensen Project - issued $81,600; outstanding $49,267.

(3) Montana Health Facility Authority (MHFA) - Component Unit - The MHFA is authorized to issue bonds and notes to finance projects for qualifying health institutions. The obligations issued by MHFA do not constitute a debt, liability, obligation or pledge of faith and credit of the State of Montana. At June 30, 1994, the MHFA had issued bonds and notes as follows (in thousands):

Project	Date of Issue	Amount Issued	Amount Outstanding
West Mont Home Health Services	June 1985	$ 440	$ 256
MHFA 1985 Pooled Loan Projects	December 1985	66,900	38,800
Community Provider Pooled Loans	October 1988	1,461	1,125
St. Peters Community Hospital	March 1989	9,365	8,190
Kalispell Regional Hospital	June 1990	14,475	13,350
Community Provider Pooled Loan	July 1990	5,858	5,336
Deaconess Medical Center (Series A)	February 1991	18,000	18,000
Deaconess Medical Center (Series B)	February 1991	18,000	18,000
Sisters of Providence	May 1991	56,535	52,635
Montana Deaconess Medical Center	June 1991	12,010	11,365
St. Peters Community Hospital	August 1991	7,000	6,415
Deaconess Medical Center	September 1991	32,650	31,050
Deaconess Medical Center	September 1991	7,000	5,700
Community Provider Pooled Loans	September 1991	3,944	3,692
Hospital Pooled Loans	August 1992	4,645	4,305
Richland Opportunities	January 1993	200	193
Bozeman Deaconess Foundation	June 1993	14,900	14,190
Holy Rosary Hospital	September 1993	18,275	18,275
Sisters of Charity	January 1994	50,915	50,915
Deaconess-Billings Clinic	January 1994	58,870	58,870
Residential Support Services	March 1994	50	50
Mineral Community Hospital	March 1994	39	37
Total		$401,532	$360,749

13. INTERFUND TRANSACTIONS

During the course of normal operations, the State has numerous transactions between funds to finance operations, provid services, construct assets, service debt, etc. Montana statutes include a provision for interfund loans when the expenditure of an appropriation is necessary and the cash balance in the account from which the appropriation was made is insufficient to pay the expenditure. To the extent that certain transactions between funds are not paid or received as of June 30, 1994, interfund receivables/payables (Due From/To Other Funds) are recorded. The schedule below presents all interfund balances outstanding at June 30, 1994, (in thousands) and interfund activity for the fiscal year then ended:

Within Primary Government and Component Units	Interfund Loans/Advances Receivable	Interfund Loans/Advances Payable	Due From Other Funds	Due To Other Funds	Operating Transfers In	Operating Transfers Out	Residual Equity Transfers In	Residual Equity Transfers Out
General	$ 12,764	$ -	$ 32,973	$ 18,611	$97,139	$14,263	$ 1,340	$ -
Special Revenue								
State	28,957	3,415	30,297	31,290	76,759	20,942	-	3,858
Federal	20	33,902	7,526	10,567	251	4,606	-	3,947
Debt Service								
Coal Tax Bonds	-	-	22	3	805	-	2,671	-
Long-Range Building Program	-	-	227	1,137	15,394	50,542	-	-
Water Development	-	-	2	42	101	66	457	-
Highway Revenue Bonds	-	-	49	260	17,352	-	-	-
Transportation Bldg. Complex	-	-	2	35	585	-	-	-
Renewable Resource	-	-	21	-	21	-	35	-
Energy Bonds	-	-	3	195	203	194	-	-
Capital Projects								
Long-Range Building Program	-	444	217	17	194	617	-	-
Fed/Priv Construction Grants	-	967	-	1	-	-	-	-
Capital Land Grant	-	-	67	2	1,397	1,346	-	-
Enterprise								
Economic Dev. Bonds	-	-	1	37	-	-	-	-
Liquor Stores	-	-	109	1,483	-	15,208	-	-
Hail Insurance	-	-	16	18	-	31	-	-
State Lottery	-	-	9	2,828	-	9,377	-	-
Prison Ranch	-	-	37	42	-	-	-	-
Prison Industries	-	-	54	44	-	-	-	-
Uninsured Employers	-	-	27	39	-	-	-	-
Subsequent Injury	-	-	3	8	722	-	-	9
Montana Career Info. Sys.	-	-	6	3	-	-	-	-
Sec. of State Business Services	-	-	1	46	-	-	-	-
Historical Soc. Publications	-	-	3	18	51	-	-	-
W. Yellowstone Airport	-	-	-	3	7	-	-	-
Local Govt. Audits	-	104	2	51	145	-	41*	-
Local Govt. Accting/Mgmt Systems	-	-	-	-	-	-	-	41
Internal Service								
Highway Equipment	-	-	284	506	-	-	-	-
Employees' Grp. Ben.	-	-	36	36	-	-	-	-
ISD	-	-	1,383	1,154	95	-	-	78
MSU Group Insurance	-	-	113	19	-	-	-	-
Admin. Insurance	-	-	4	140	522	23	-	-
FWP Equipment	-	-	328	6	175	-	-	-
Motor Pool	-	-	131	417	-	-	-	-
Admin. Prop. & Supply	-	-	252	47	-	-	-	-
Publications & Graphics	30	-	261	147	-	-	-	-
Buildings & Grounds	-	-	59	55	138	28	-	-
Labor Central Services	-	-	85	77	-	-	-	-
Commerce Central Services	-	-	139	94	-	-	-	-
DHES Indirect Cost Pool	-	-	123	102	-	-	4*	-
FWP Warehouse Inventory	-	20	8	1	-	-	-	-
Mail & Messenger	-	230	68	19	-	-	-	-
Investment Division	-	-	138	78	-	-	-	-
Aircraft Operation	-	-	44	21	183	-	-	-
Justice Legal	-	-	38	29	-	-	-	-
OPI Central Services	-	-	133	111	477	-	-	-
Personnel Training	-	-	6	8	-	-	-	-
Records Management	-	-	36	21	-	-	29*	-
FWP Office Supply	-	-	1	5	-	-	-	-
DHES Legal	-	-	-	-	-	-	-	4
Bad Debt	-	-	38	12	-	-	-	-
Admin. Legal	-	-	-	5	-	-	-	-
Local Govt Administration	-	-	8	8	-	-	-	-
Statewide Fueling Network	-	30	-	-	-	-	-	-
Natural Gas Procurement	-	-	-	1	-	-	-	-

Within Primary Government and Component Units	Interfund Loans/Advances Receivable	Interfund Loans/Advances Payable	Due From Other Funds	Due To Other Funds	Operating Transfers In	Operating Transfers Out	Residual Equity Transfers In	Residual Equity Transfers Out
PSC Audit Reimbursements	-	-	-	-	-	-	-	5
Admin. DP Unit	-	-	-	1	-	-	-	-
Expendable Trusts								
Unemployment Insurance	-	-	5	-	-	-	195	-
Rural Development	-	-	1	3	-	-	-	-
Rail Construction	-	-	2	-	-	-	1,690	-
Rock Creek	-	1	3	7	-	-	1,474	-
L & I Comp Insurance	-	-	1	-	-	-	-	-
Historical Society General	-	-	1	-	-	7	-	1
Nonexpendable Trusts								
Coal Tax Trust	-	2,920	662	16,844	-	42,804	-	-
Land Grants	-	-	127	5,517	-	45,127	-	-
Resource Indemnity	-	28	445	3,048	-	8,239	-	-
Parks Trust	-	-	18	218	-	988	-	-
Cultural Trust	100	-	15	96	-	595	-	-
Real Property	-	-	13	70	-	292	-	-
Noxious Weed Management	-	-	12	39	-	270	-	-
Moore Sipple Connector	-	-	1	-	-	-	-	-
Thomas Teakle Trust	-	-	-	-	-	4	-	-
Hist. Society Acquisitions	-	-	-	-	-	-	7	-
Pension Trusts								
PERS	-	-	3,031	2,233	-	-	-	-
Municipal Police	-	-	2,104	27	-	-	-	-
Firefighters Unified	-	-	4,037	23	-	-	-	-
Sheriffs	-	-	7	19	-	-	-	-
Highway Patrol	-	-	50	12	-	-	-	-
Judges	-	-	71	3	-	-	-	-
Game Wardens	-	-	28	4	-	-	-	-
Volunteer Firefighters	-	-	768	17	-	-	-	-
Agency								
Investment Pool	-	-	-	1,226	-	-	-	-
Land Grant Interest	-	-	1	2	-	-	-	-
Performance Deposits	190	-	40	63	-	-	-	-
Central Payroll	-	-	19,483	85	-	-	-	-
Custodial Accounts	-	-	8	-	-	-	-	-
Unissued Warrants	-	-	44	1,828	-	-	-	-
Child Support Collections	-	-	142	762	-	-	-	-
Intergovemmental	-	-	2	19	-	-	-	-
A & E Advances	-	-	80	-	-	-	-	-
Uncleared Collections	-	-	14	6,914	-	-	-	-
Bad Debts	-	-	3	159	-	-	-	-
COMPONENT UNITS								
Enterprise Funds								
State Comp. Insurance - New	-	-	1,833	-	-	-	-	-
State Comp. Insurance - Old	-	-	-	1,791	-	-	-	-
Pension Trusts								
Teachers Retirement System	-	-	288	6	-	-	-	-
Higher Education								
Current Funds								
General Operating	250	-	4,734	4,183	872	695	3	-
Designated	1,000	-	3,736	1,715	2,263	3,776	61	-
Auxiliary	-	-	401	1,408	879	11,136	12	-
Restricted	-	1,250	1,333	4,030	368	123	-	88
Fiduciary								
Student Loans	-	-	17	92	18	34	-	-
Endowments	-	-	2	1	91	1	-	-
Agency	-	-	4,377	1,013	-	-	-	-
Plant								
Unexpended	-	-	33	217	13,063	4,314	12	-
Renewal & Replacement	-	-	386	256	8,598	2,558	-	-
Retirement of Indebtedness	-	-	593	492	27,574	28,236	-	-
Totals	$ 43,311	$ 43,311	$124,342	$124,342	$266,442	$266,442	$ 8,031	$ 8,031

* These Residual Equity Transfers are reflected in Contributed Capital on the balance sheet.

Between Primary Government and Component Units	Due From Comp. Units	Due To Primary Govt	Due To Comp. Units	Due From Primary Govt	Transfer From Comp. Units	Transfer To Primary Govt	Transfer To Comp. Units	Transfer From Primary Govt
General	$ 663	$ -	$ 476	$ -	$ 373	$ -	$ 98,448	$ -
Special Revenue								
State	414	-	18,051	-	3,972	-	60,016	-
Federal	2	-	-	-	-	-	-	-
Debt Service								
Long-Range Building Program	22	-	-	-	439	-	-	-
Enterprise								
Prison Industries	5	-	-	-	-	-	-	-
Internal Service								
ISD	212	-	-	-	-	-	-	-
MUS Group Insurance	358	-	-	-	-	-	-	-
Admin. Insurance	-	-	1	-	-	-	-	-
Motor Pool	1	-	-	-	-	-	-	-
Admin. Property & Supply	25	-	-	-	-	-	-	-
Publications & Graphics	33	-	-	-	-	-	-	-
Commerce Central Services	7	-	-	-	-	-	-	-
DHES Indirect Cost Pool	1	-	-	-	-	-	-	-
Mail & Messenger	4	-	-	-	-	-	-	-
Investment Division	28	-	5	-	-	-	-	-
Justice Legal	6	-	-	-	-	-	-	-
Records Management	1	-	-	-	-	-	-	-
Nonexpendable Trusts								
Coal Tax Trust	100	-	1	-	-	-	-	-
Land Grants	-	-	260	-	-	-	-	-
Pension Trusts								
PERS	332	-	22	-	-	-	-	-
Sheriffs	6	-	-	-	-	-	-	-
Agency								
Investment Pool	-	-	389	-	-	-	-	-
Employees Defer. Comp.	83	-	-	-	-	-	-	-
Central Payroll	920	-	-	-	-	-	-	-
Custodial Accounts	7	-	-	-	-	-	-	-
Child Support Collections	6	-	-	-	-	-	-	-
Uncleared Collections	1	-	15	-	-	-	-	-
Bad Debts	-	-	3	-	-	-	-	-
COMPONENT UNITS								
Enterprise Funds								
Housing Authority	-	54	-	-	-	-	-	-
Health Facilities Authority	-	11	-	2	-	-	-	-
State Comp. Ins. - New	-	1,008	-	156	-	2,402	-	-
State Comp. Ins. - Old	-	-	-	17,983	-	2,382	-	42,167
Pension Trusts								
Teachers Retirement System	-	119	-	178	-	-	-	-
Higher Education								
Current Funds								
General Operating	-	653	-	476	-	-	-	116,297
Designated	-	431	-	-	-	-	-	-
Auxiliary	-	8	-	34	-	-	-	-
Restricted	-	43	-	72	-	-	-	-
Fiduciary								
Agency	-	908	-	95	-	-	-	-
Plant								
Unexpended	-	2	-	111	-	-	-	-
Retirement of Indebtedness	-	-	-	116	-	-	-	-
Totals	$ 3,237	$ 3,237	$ 19,223	$ 19,223	$ 4,784	$ 4,784	$ 158,464	$158,464

14. FUND DEFICITS

The following funds have a deficit fund balance/retained earnings found on the operating statements for June 30, 1994, (in thousands):

	Deficit Amount
Primary Government	
Capital Projects Fund	
Federal/Private Const. Grants	$ (1,005)
Propriety Fund Type	
FWP Snowgroomer Rental	(50)
Local Government Audits	(9)
Department of Agriculture	(175)
Internal Service Fund	
Administration Insurance	(12,029)
OPI Central Services	(45)
Records Management	(23)
FWP Office Supply	(4)
Administration - Legal	(15)
Local Government Admin	(31)
Statewide Fueling Network	(2)
Admin. DP Unit	(3)
Total Fund Deficits - Primary Government	$ (13,391)
Component Units	
Propriety Fund Type	
State Comp. Ins. (New Fund)	$ (5,770)
State Comp. Ins. (Old Fund)	(471,393)
Higher Education Funds	
General Operating Subfund	(15,279)
Total Fund Deficits - Component Units	$(492,442)

The deficit retained earnings in the Administration Insurance Fund and the State Compensation Insurance Fund-New and Old are due to recording the expense for estimated claims including claims incurred but not reported. Refer to Notes 7 and 9 for further discussion of these funds. The deficit fund balance in the General Operating Subfund is due to the expense associated with the recording of compensated absences.

15. PROPRIETARY AND NONEXPENDABLE TRUST RESERVED BALANCES

The Proprietary Fund Type retained earnings are reserved as follows (in thousands): Enterprise Fund - Reserved for Future Claims $2,925; Internal Service Fund - Reserved for Employees Benefits $24,500; Component Units - Reserved for Debt Service $83,797.

The Coal Tax Trust reserved fund balance in the Nonexpendable Trust Fund consists of the following (in thousands): Permanent Coal Tax Trust $509,970, Treasure State Endowment Fund $20,521 and the School Bond Contingency Fund $2,167. All other Nonexpendable Trust Fund balances, $448,156, are Reserved for Trust Principal.

16. SEGMENT INFORMATION

Selected financial information concerning all enterprise operations for the fiscal year ended June 30, 1994, is as follows (in thousands):

	Economic Development Bonds	Liquor Stores	Hail Insurance	State Lottery	Other* Propriety	Total Propriety
Operating Revenues:						
Charges for Services	$ 249	$ 39,870	$ -	$ 37,485	$ 7,648	$ 85,252
Investment Earnings	3,038	-	147	131	135	3,451
Contrib./Premiums	-	-	2,371	-	18	2,389
Taxes	-	10,304	-	-	-	10,304
Other Revenues	-	74	-	44	2,168	2,286
Operating Expenses:						
Depreciation	5	77	1	42	338	463
Amortization	1	-	-	-	6	7
Other	3,046	34,816	2,434	28,241	7,412	75,949
Operating Income (Loss)	235	15,355	83	9,377	2,213	27,263
Nonoperating Revenues (Expenses)	-	-	-	-	(365)	(365)
Oper. Trans. In (Out)	-	(15,208)	(31)	(9,377)	925	(23,691)
Net Income (Loss)	$ 235	$ 147	$ 52	$ -	$ 2,773	$ 3,207
Current Assets	$ 5,479	$ 8,487	$ 6,159	$ 5,180	$ 13,503	$ 38,808
Current Liabilities	(1,462)	(6,754)	(1,190)	(5,209)	(705)	(15,320)
Net Working Capital	$ 4,017	$ 1,733	$ 4,969	$ (29)	$ 12,798	$ 23,488
Total Assets	$ 48,490	$ 9,869	$ 6,166	$ 5,358	$ 18,444	$ 88,327
Total Liabilities	46,621	7,129	1,911	5,357	2,124	63,142
Fund Equity	$ 1,869	$ 2,740	$ 4,255	$ 1	$ 16,320	$ 25,185
Long-Term Obligations	$ 45,159	$ 375	$ 721	$ 148	$ 1,419	$ 47,822
Cur. Yr. Capital Cont.	$ -	$ -	$ (2)	$ -	$ 73	$ 71
Acquisition of Fixed Assets	$ -	$ 33	$ -	$ 3	$ 372	$ 408
Disposal of Fixed Assets	$ -	$ -	$ 4	$ -	$ 3	$ 7

1. The Economic Development Bond Program, administered by the Board of Investments, assists Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.

2. The Liquor Division of the Department of Revenue administers the State liquor operations (Liquor Stores). This fund accounts for liquor licensing activities and the sale and distribution of alcoholic beverages.

3. The Hail Insurance Fund provides benefit payments to producers for crop acreage insured and accounts for premium assessments paid (See Note 9).

4. The State Lottery accounts for the operations of Montana's lottery which began in June 1987.

* Other Enterprise is composed of the following funds (listed by administering agency):

Department of Agriculture
Department of Agriculture

Department of Commerce
Local Government Audits

Department of Transportation
West Yellowstone Airport

Fish, Wildlife and Parks
FWP Snowgroomer Rental

Montana Historical Society
Historical Society Publications

Department of Labor and Industry
Montana Career Infor. System
Subsequent Injury
Uninsured Employers

Secretary of State
Business Services

Department of Corrections and Human Services
Prison Ranch\Industries
Women's Prison Industries
Swan River Vocational Training

17. CONTRIBUTED CAPITAL

During fiscal year 1994, contributed capital changed by the following amounts (in thousands):

	PRIMARY GOVERNMENT		COMPONENT UNITS
	Enterprise Fund	Internal Service Fund	Enterprise Fund
Begin. Bal. - July 1, 1993	$ 3,181	$ 5,850	$ 11,998
Additions:			
Contrib. Capital Transfers-in	76	1,687	2
Deletions:			
Contrib. Capital Transfers-out	(5)	(1,910)	-
Ending Bal. - June 30, 1994	$ 3,252	$ 5,627	$ 12,000

18. NONEXPENDABLE TRUST FUNDS' INVESTMENT INCOME

Investments are recorded in Nonexpendable Trust Funds using the full accrual basis of accounting. However, certain investment earnings attributable to these trusts are transferred elsewhere, as summarized below:

Nonexpendable Trust Fund	Reporting of Investment Earnings
Coal Tax Trust	Permanent Trust Accounting Entities - Investment Earnings are distributed eighty-five percent to the General Fund and fifteen percent to the Public School Equalization Account in the State Special Revenue Fund for fiscal year 1994. Treasure State Endowment Accounting Entity - A specified amount may be transferred annually to the State Special Revenue Fund to cover grants and loans to local governments for infrastructure projects. In 1994, no transfers of funds were made.
Resource Indemnity	Resource Indemnity Tax investment earnings are distributed to the State Special Revenue Fund as follows: $175,000 to the Environmental Contingency Account; $50,000 to the Oil and Gas Damage Mitigation Account; $1,025,000 to the Renewable Resource Loan and Grant Account; $2,200,000 to the Reclamation and Development Grant Account; $250,000 to the Water Storage Account; and the remaining investment earnings are distributed thirty-eight percent to the Renewable Resource Loan and Grant Account; fifteen percent to the Hazardous Waste/Comprehensive Environmental Response, Compensation, Liability Act Account; forty-one and one-half percent to the Reclamation and Development Grant Account; and five and one-half percent to the Environmental Quality Protection Account.
Parks Trust	Investment earnings are distributed to the State Special Revenue Fund for the maintenance of parks by the Department of Fish, Wildlife and Parks.
Cultural Trust	Investment earnings are distributed to the State Special Revenue Fund for cultural and aesthetic projects administered by the Montana Arts Council.
Land Grants	Ninety-four percent of investment earnings are transferred to the State Special Revenue Fund for the Office of Public Instruction to distribute to public schools; five percent is distributed to Higher Education Units (Current and Plant Funds); and one percent to the Department of Corrections & Human Services (General Fund and State Special Revenue Fund).
Real Property	Investment earnings are transferred to the State Special Revenue Fund for use by the Department of Fish, Wildlife and Parks to operate, maintain and develop its real property.
Noxious Weed Management	Investment earnings are transferred to the State Special Revenue Fund for noxious weed management projects.
Thomas Teakle	Investment earnings are transferred to the State Special Revenue Fund for the Montana Historical Society's library acquisitions.

19. RELATED PARTY TRANSACTIONS

The Montana Board of Regents, an agency within the State, has guaranteed approximately $341.3 million in student loans. About 71% of these loans are owned by the Montana Higher Education Student Assistance Corporation (MHESAC), a private non-profit corporation. The Board of Regents and MHESAC have four common board members. Lewis & Clark County

owns the building which houses the Commissioner of Higher Education. MHESAC has the option of acquiring the building once the debt is paid off. The State pays MHESAC for its share of various costs such as personnel costs for employees of MHESAC who perform services that are of direct benefit to the State; equipment leases; computer maintenance costs and utilities. The total amount of these expenses for fiscal year 1994 amounted to $359,752. MHESAC employees are allowed to participate in the MUS Group Insurance. The State provides certain services to MHESAC such as telephones, postage and computer supplies which are reimbursed to the State. During fiscal year 1994 the total amount of money paid to the State by MHESAC was $391,938.

There is a foundation affiliated with each university unit which solicits contributions and manages those funds for the benefit of that unit. Each foundation is a separate legal entity; each university unit exercises significant influence over its affiliated foundation. The universities generally provide the foundations with office space, some staff and related office expenses and an annually contracted fee. The universities paid their foundations approximately $548,000 in fiscal year 1994. In return the universities received approximately $8,100,000 in donations during fiscal year 1994.

20. CONTINGENCIES

A. Litigation - The State is party to legal proceedings, which normally occur in government operations. The legal proceedings are not, in the opinion of the State's legal counsel and the Department of Administration, likely to have a material adverse impact on the State's financial position, except where listed below.

The Crow Tribe filed suit in 1978 in federal district court seeking a declaration that Montana's coal severance and gross proceeds taxes are invalid as applied to the production of coal on the Crow Reservation and to the production of coal owned by the Tribe located in an off-reservation area, known as the "Crow ceded area" or "ceded strip", which lies roughly between the northern boundary of the reservation and the Yellowstone River. The amount of coal reserves falling within these categories has not been precisely determined. The taxes were alleged to be invalid under a variety of theories, of which the most prominent were that the state taxes conflict with federal policy by preventing the marketing of Crow coal and infringe on tribal sovereignty by depriving the Tribe of revenue needed to provide governmental services to the Crow people. In addition to a declaration that the taxes were invalid, the Tribe sought restitution for an amount equal to the severance and gross proceeds taxes paid by Westmoreland Resources, Inc. (Westmoreland), the only company currently mining coal claimed by the Tribe, together with the interest which accrued to the Coal Severance Tax Trust Fund on the amount of taxes paid.

In January 1983, the court ordered Westmoreland's future severance tax payments placed in escrow pending the outcome of the litigation. The State has received no severance tax payments from Westmoreland with respect to the coal mined on the ceded strip since the entry of this order. Prior to 1983, Westmoreland's annual severance tax payments varied from a low of $5.407 million in 1976 to a high of $7.078 million in 1979.

In June 1987, the Ninth Circuit Court of Appeals ruled that Montana is preempted from applying its severance and gross proceeds taxes on coal within the ceded strip held in trust for the Crow Tribe and on coal mined on the reservation. In August 1987, the State docketed an appeal of the decision to the United States Supreme Court, and in January 1988, that Court summarily affirmed the Court of Appeals' judgment.

As a result of the Supreme Court's affirmance, two principal issues remained in the case, one of which has been resolved. The first issue involved the appropriate disposition of the escrowed moneys, to which the State disclaimed any interest after the Supreme Court's decision. The district court concluded in September 1988 that these moneys should be paid to the United States in trust for the Tribe. The escrowed funds totaling $30.1 million were distributed in May 1989 to the United States.

The second issue, which remains to be resolved, is the Tribe's claim for tax moneys paid by Westmoreland to the State but not escrowed and Westmoreland's claim for the same amounts. The State requested summary judgment with respect to the Tribe's claim for the nonescrowed moneys in November 1989, but its motion was denied in December 1990. The State thereafter sought certification from the District Court to appeal such denial pursuant to 28 USC Section 1292(b), and certification was granted by the Ninth Circuit in July 1991. However, in July 1992 the Court of Appeals determined that leave to appeal had been improvidently granted and dismissed the appeal. The State believes its defenses to the Tribe's restitution claim have merit, but the issues are novel and their resolution cannot be predicted with certainty.

The sum of all the nonescrowed coal severance tax moneys, exclusive of interest, is approximately $48 million. If interest on such moneys is eventually awarded, their amount will increase substantially. The Tribe estimates the State's liability for interest with respect to the coal severance tax amounts at approximately $250.4 million as of March 31, 1994. If the State is eventually held liable for paying interest, the actual amount will depend upon the interest rate judged appropriate and the time period over which it is calculated. Consequently, in the event the State is held liable for paying the interest, the actual amount may vary significantly from the Tribe's estimate. Trial was held on the claim of nonescrowed monies in April and May 1994. On November 23, 1994, the district court ruled against the Crow Tribe but appeals are pending and no final decision is expected soon.

B. Federal Contingencies:

Federal Financial Assistance - The State receives federal financial assistance for specified purposes which are subject to review and audit in accordance with the Single Audit Act of 1984. Any disallowances resulting from these audits would become the liability of the State. There are no disallowances reported as of June 30, 1994.

USDA Food Stamp Coupons/Commodities - The State no longer has custodial responsibility for USDA food stamps coupons. The Department of Social and Rehabilitation Services has contracted with Sacramento Services Development Corporation

(SSDC) in Sacramento, California to mail-issue 100% of all food stamps. SSDC is responsible for the storage of all food stamp coupons and carries adequate insurance to cover the state's potential losses. In fiscal year 1994, Montana issued $55,413,520 in food stamp coupons.

In fiscal year 1994, the State distributed $6,803,851 in commodities. The value at June 30, 1994, of commodities stored in the State's warehouses is $2,021,604 for which the State is liable in the event of loss.

Social Security - The Social Security Administration (SSA) has assessed the State for the alleged failure to withhold and forward social security contributions for part-time employees for the years 1984-1986. The matter has been fully submitted for a final administrative decision. The amount at issue is estimated to be $2.5 million plus interest of approximately $1 million which continues to accrue at a rate of 6% per annum. Of the principal amount, $720,000 is estimated to be the initial liability of state government central payroll; a proportional amount of the interest figure provided would be the State's responsibility. The balance of the amount owing is the initial responsibility of various political subdivisions. The portion of that amount that the state might have to pay (because of the current nonexistence of some of those political subdivisions) should not be substantial, approximately $5,000.

Gain Contingencies - Certain natural resource and corporation tax assessments are not reported on the State's financial statements because they are being protested administratively. As of June 30, 1994, the following assessments (by fund type) were outstanding (in thousands):

Taxes	General	Special Revenue	Debt Service	Nonexpendable Trust
Corporation	$ 3,738	$ 913	$ 336	$ -
Coal Severance	3,259	6,993	201	10,722
Oil & Gas	2,771	-	-	-
Resources Indemnity	-	149	-	188
Totals	$ 9,768	$ 8,055	$ 537	$ 10,910

Collectibility of these contingencies is dependent upon the decisions of the court, other authorities, or agreed upon settlements.

21. SUBSEQUENT EVENTS

On August 1, 1994, the Montana Health Facility Authority (MHFA) issued $13,100,000 in Health Care Revenue Bonds. The obligations issued by MHFA do not constitute a debt, liability, obligation or pledge of faith and credit of the State. The money from these bonds were loaned to the Department of Corrections and Human Services for building new facilities for the Montana Developmental Center. The loan will appear on the States' books in fiscal year 1995.

On August 15, 1994, the Department of Natural Resources and Conservation issued $2,200,000 in General Obligation Bonds, Series 1994B (Wastewater Treatment Works Revolving Fund Program).

On September 20, 1994, the Board of Housing (Housing Authority) issued $20,000,000 in Single Family Program Bonds, Series 1994C.

On October 5, 1994, the State issued $70,100,000 in Tax and Revenue Anticipation Notes, Series 1994, due June 30, 1995. The proceeds of the Notes will provide cash to support expenditures from the general fund, pending the receipt of taxes and revenues, for the fiscal year ending June 30, 1995.

On October 12, 1994, the State issued $21,955,000 in General Obligation Bonds, Series 1994C (Long-Range Building Program for building construction).

On October 12, 1994, the Department of Natural Resources and Conservation issued $1,600,000 in General Obligation Bonds, Series 1994D (Energy Conservation Program).

On October 12, 1994, the Department of Natural Resources and Conservation issued $750,000 in General Obligation Bonds, Series 1994E (Renewable Resource Loan Program).

On October 19, 1994, the Montana Health Facility Authority (MHFA) issued $4,575,000 in Health Care Revenue Bonds, series A through D. The obligations issued by MHFA do not constitute a debt, liability, obligation or pledge of faith and credit of the State.

In October 1994, the state lost a lawsuit concerning the method of calculating taxable value of certain residential property in Cascade County. In October 1994, $1,000,000 was set aside to pay back the taxpayers affected by this decision. The effect of this loss is to reduce the General Fund fund balance by $1,000,000.

On November 21, 1994, the Montana Supreme Court reversed a decision of the Workers' Compensation Court dealing with workers' compensation benefits. This means the State Compensation Insurance Funds (New and Old) may have a total loss of up to $11,000,000. The case is subject to pending rehearing request before the Montana Supreme Court and then a hearing on remand before the Workers' Compensation Court to rule on issues so that claims eligible for recovery can be fully determined. As a result, an estimate of actual loss incurred by each Fund cannot be determined until final decisions are made.

State of Montana
Schedule of Federal Financial Assistance by Federal Agency and Program
For the Fiscal Year Ending June 30, 1994

CFDA #	Federal Assistance Program by Federal Agency	1993 - 1994 Assistance Amount
Department of Agriculture		
	Agricultural Research Service	
10.001	Agricultural Research-Basic and Applied Research	$898,635
	Animal and Plant Health Inspection Service	
10.025	Plant and Animal Disease and Pest Control	134,602
10.028	Animal Damage Control	61
	Agricultural Stabilization and Conservation Service	
10.063	Agricultural Conservation Program	11,574
10.064	Forestry Incentives Program	2,090
	Agricultural Marketing Service	
10.156	Federal-State Marketing Improvement Program	5,208
10.162	Inspection Grading and Standardization	26,556
	Cooperative State Research Service	
10.200	Grants for Agricultural Research, Special Research Grants	1,250,236
10.202	Cooperative Forestry Research	400,354
10.203	Payments to Agricultural Experiment Stations Under Hatch Act	1,959,497
10.205	Payments to 1890 Land- Grant Colleges and Tuskegee University	25,119
10.206	Grants for Agricultural Research-Competitive Research Grants	402,359
10.207	Animal Health and Disease Research	119,200
10.214	Morrill-Nelson Funds for Food and Agricultural Higher Education	50,000
10.215	Sustainable Agriculture Research and Education	95,342
	Economic Research Service	
10.250	Agricultural and Rural Economic Research	86,203
10.299	Other Miscellaneous Non-Major Grants	42,256
	Food Safety and Inspection Service	
10.475	Cooperative Agreements with States for Meat and Poultry Inspection	288,602
	Extension Service	
10.500	Cooperative Extension Service	3,362,926
	Food and Nutrition Service	
10.550	Food Distribution	2,430,974
10.551	Food Stamps	55,413,520
10.553	School Breakfast Program	1,789,209
10.555	National School Lunch Program	12,277,486
10.556	Special Milk Program for Children	59,834
10.557	Special Supplemental Food Program for Women, Infants, and Children	10,767,905
10.558	Child and Adult Care Food Program	7,322,765
10.559	Summer Food Service Program for Children	696,938
10.560	State Administrative Expenses for Child Nutrition	283,943
10.561	State Administrative Matching Grants for Food Stamp Program	6,032,784
10.564	Nutrition Education and Training Program	74,360
10.567	Food Distribution Programs on Indian Reservations	4,502,996
10.568	Emergency Food Assistance (Administrative Costs)	136,047
10.569	Emergency Food Assistance (Food Commodities)	631,614
10.570	Nutrition Program for the Elderly (Commodities)	1,064,255
10.571	Food Commodities for Soup Kitchens	111,843
	Foreign Agricultural Service	
10.600	Foreign Agricultural Market Development and Promotion	30,536
	Forest Service	
10.652	Forestry Research	1,824,257
10.664	Cooperative Forestry Assistance	948,486
10.665	Schools and Roads-Grants to States	13,889,492

CFDA #	Federal Assistance Program by Federal Agency	1993 - 1994 Assistance Amount
10.699	Other Miscellaneous Non-Major Grants	1,919
	Soil Conservation Service	
10.901	Resource Conservation and Development	140,208
10.902	Soil and Water Conservation	6,123
10.903	Soil Survey	10,667
	Office of International Cooperation and Development	
10.961	International Agricultural Research-Collaborative Program	2,556
	Miscellaneous	
10.999	Other Miscellaneous Non-Major Grants	254,817
	Total for Agency	**$129,866,354**
	Department of Commerce	
	Economic Development Administration	
11.303	Economic Development-Technical Assistance	$132,486
11.305	Economic Development-State and Local Economic Development Planning	47,844
11.307	Special Economic Development and Adjustment Assistance Program	22,371
11.399	Other Miscellaneous Non-Major Grants	43,000
	National Oceanic and Atmospheric Administration	
11.446	Antartic Marine Living Resources	31,148
	National Telecommunications and Information Administration	
11.550	Public Telecommunications Facilities-Construction and Planning	20,033
	National Institute for Standards and Technology	
11.611	Manufacturing Extension Partnership	15,137
	Miscellaneous	
11.999	Other Miscellaneous Non-Major Grants	411,755
	Total for Agency	**$723,774**
	Department of Defense	
	Department of the Army, Office of the Chief Engineers	
12.110	Planning Assistance to States	$8,211
12.199	Other Miscellaneous Non-Major Grants	189,483
	Department of the Navy, Office of the Chief of Naval Research	
12.300	Basic and Applied Scientific Research	341,816
	U.S. Army Material Command	
12.431	Basic Scientific Research	73,080
	Department of the Air Force, Material Command	
12.800	Air Force Defense Research Sciences Program	149,561
	Miscellaneous	
12.999	Other Miscellaneous Non-Major Grants	155,227
	Total for Agency	**$917,378**
	Department of Housing and Urban Development	
	Community Planning and Development	
14.227	Community Development Block Grant/Special Purpose Grants/Technical Assistance Program	$73,188
14.228	Community Development Block Grant/State's Program	7,105,974

State of Montana
Schedule of Federal Financial Assistance by Federal Agency and Program
For the Fiscal Year Ending June 30, 1994

CFDA #	Federal Assistance Program by Federal Agency	1993 - 1994 Assistance Amount
14.231	Emergency Shelter Grants Program	111,972
14.239	HOME Investment Partnership Program	1,995,358
	Office of Fair Housing and Equal Opportunity	
14.401	Fair Housing Assistance Program-State and Local	159,346
14.408	Fair Housing Incentives Program (FHIP) Administrative Enforcement Initiative	11,385
	Public and Indian Housing	
14.855	Section 8 Rental Voucher Program	2,232,225
14.856	Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	5,369,644
14.857	Section 8 Rental Certificate Program	7,576,480
	Miscellaneous	
14.999	Other Miscellaneous Non-Major Grants	56,742
	Total for Agency	**$24,692,314**
Department of the Interior		
	Bureau of Indian Affairs	
15.114	Indian Education-Higher Education Grant Program	$114,094
15.130	Indian Education-Assistance to Schools	15,345
15.142	Self Determination Grants-Indian Tribal Governments	1,403
15.143	Training and Technical Assistance-Indian Tribal Governments	82,993
15.145	Indian Grants-Economic Development(Indian Grant Program)	16,246
15.199	Other Miscellaneous Non-Major Grants	20,065
	Bureau of Land Management	
15.200	BLM - Cooperative Assistance Agreement	13,312
15.219	Wildlife Habitat Management Technical Assistance	90,300
15.221	Cooperative Agreements for Research in Public Lands Management	103,626
15.223	Recreation and Cultural Resources Management	4,231
	Office of Surface Mining Reclamation and Enforcement	
15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	759,197
15.252	Abandoned Mine Land Reclamation (AMLR) Program	3,910,266
15.299	Other Miscellaneous Non-Major Grants	333,768
	Bureau of Mines	
15.308	Grants for Mining and Mineral Resources and Research Institutes	122,586
	Bureau of Reclamation	
15.502	Irrigation Systems Rehabilitation and Betterment	52,667
15.503	Small Reclamation Projects	702,596
15.599	Other Miscellaneous Non-Major Grants	78,427
	U.S. Fish and Wildlife Service	
15.604	Fishery Research-Information	70,676
15.605	Sport Fish Restoration	4,368,490
15.607	Environmental Contaminant	28,169
15.608	Fish and Wildlife Management Assistance	62,626
15.610	Wildlife Research Information	185,129
15.611	Wildlife Restoration	3,429,601
15.612	Endangered Species Conservation	86,964
15.699	Other Miscellaneous Non-Major Grants	300,169
	Geological Survey	
15.805	Assistance to State Water Resources Research Institutes	78,714
15.806	National Water Resources Research Program	14,717
15.808	Geological Survey-Research and Data Acquisition	139,363

CFDA #	Federal Assistance Program by Federal Agency	1993 - 1994 Assistance Amount
	National Park Service	
15.900	National Archives - NHPRC	260
15.904	Historic Preservation Fund Grants-In-Aid	507,227
15.912	National Historic Landmark	1,991
15.914	National Register of Historic Places	60
15.915	Technical Preservation Services	110,395
15.916	Outdoor Recreation-Acquisition, Development and Planning	667,539
	National Biological Survey	
15.975	Research Information	58,412
	Miscellaneous	
15.999	Other Miscellaneous Grants	22,909,631
	Total for Agency	**$39,441,255**
	Department of Justice	
	Drug Enforcement Administration	
16.001	Law Enforcement Assistance-Narcotics and Dangerous Drugs-Laboratory Analysis	$75,398
	Community Relations Service	
16.200	Community Relations Service	3,369
	Office of Juvenile Justice and Delinquency Prevention	
16.540	Juvenile Justice and Delinquency Prevention-Allocation to States	349,486
16.543	Missing Children's Assistance	6,193
	Bureau of Justice Statistics	
16.550	Criminal Justice Statistics Development	101,989
	National Institute of Justice	
16.560	Justice Research and Development Projects Grants	12,907
	Bureau of Justice Assistance	
16.574	Criminal Justice Discretionary Grants	9,090
16.575	Crime Victim Assistance	381,000
16.576	Crime Victim Compensation	128,000
16.579	Drug Control and System Improvement--Formula Grant	2,220,632
16.582	Crime Victim Assistance/Discretionary Grants	70,000
16.599	Other Miscellaneous Non-Major Grants	15,281
	Bureau of Prisons	
16.602	Corrections-Research and Evaluation and Policy Formulation	98,363
	Total for Agency	**$3,471,708**
	Department of Labor	
	Bureau of Labor Statistics	
17.002	Labor Force Statistics	$569,164
	Employment and Training Administration	
17.203	Labor Certification for Alien Workers	124,361
17.207	Employment Service	6,469,416
17.225	Unemployment Insurance	25,158,401
17.245	Trade Adjustment Assistance-Workers	1,217,845
17.246	Employment and Training Assistance-Dislocated Workers	3,192,530
17.248	Employment and Training Research and Development Projects	40,000
17.250	Job Training Partnership Act	8,838,598
17.251	Native American Employment and Training Programs	23,382

State of Montana
Schedule of Federal Financial Assistance by Federal Agency and Program
For the Fiscal Year Ending June 30, 1994

CFDA #	Federal Assistance Program by Federal Agency	1993 - 1994 Assistance Amount
	Occupational Safety and Health Administration	
17.500	Occupational Safety and Health	208,014
	Mine Safety and Health Administration	
17.600	Mine Health and Safety Grants	74,452
	Office of the Assistant Secretary for Veterans' Employment and Training	
17.801	Disabled Veterans Outreach Program	305,064
17.802	Veterans Employment Program	137,991
17.804	Local Veterans Employment Representative Program	620,222
	Miscellaneous	
17.999	Other Miscellaneous Non-Major Grants	119,998
	Total for Agency	**$47,099,438**
Department of State		
	Bureau of Oceans and International Environmental and Scientific Affairs	
19.204	Fishermen's Guaranty Fund	$13,013
	Miscellaneous	
19.999	Other Miscellaneous Non-Major Grants	92,640
	Total for Agency	**$105,653**
Department of Transportation		
	United States Coast Guard	
20.005	Boating Safety Financial Assistance	$226,370
	Federal Aviation Administration	
20.106	Airport Improvement Program	147,414
	Federal Highway Administration	
20.205	Highway Planning and Construction	150,942,658
20.215	Highway Training and Education	194,493
20.218	Motor Carrier Safety Assistance	469,136
20.219	National Recreational Trails Funding Program	25,269
	Federal Railroad Administration	
20.308	Local Rail Service Assistance	31,566
	Federal Transit Administration	
20.500	Federal Transit Capital Improvement Grants	562,053
20.505	Federal Transit Technical Studies Grants	109,668
20.509	Public Transportation for Nonurbanized Areas	676,781
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	286,268
	National Highway Traffic Safety Administration	
20.600	State and Community Highway Safety	899,317
	Research and Special Programs Administration	
20.700	Pipeline Safety	21,837
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	44,913
	Total for Agency	**$154,637,743**

CFDA #	Federal Assistance Program by Federal Agency	1993 - 1994 Assistance Amount
	Department of the Treasury	
	Miscellaneous	
21.999	Other Miscellaneous Non-Major Grants	$167,952
	Total for Agency	**$167,952**
	Equal Employment Opportunity Commission	
30.002	Employment Discrimination-State and Local Fair Employment Practices Agency Contracts	$117,479
	Total for Agency	**$117,479**
	General Services Administration	
39.003	Donation of Federal Surplus Personal Property	$860,278
	Total for Agency	**$860,278**
	National Aeronautics and Space Administration	
43.001	Aerospace Education Services Project	$474,628
43.002	Technology Utilization	851,979
	Miscellaneous	
43.999	Other Miscellaneous Non-Major Grants	38,694
	Total for Agency	**$1,365,301**
	National Foundation on the Arts and the Humanities	
	National Endowment for the Arts	
45.003	Promotion of the Arts-Arts in Education	$72,378
45.007	Promotion of the Arts-State and Regional Programs	557,126
45.009	Promotion of the Arts-Visual Arts	4,550
45.010	Promotion of the Arts-Expansion Arts	79,280
45.015	Promotion of the Arts-Folk Arts	22,000
45.023	Promotion of the Arts-Local Programs	41,108
	National Endowment for the Humanities	
45.127	Promotion of the Humanities-Elementary and Secondary Education	16,450
45.129	Promotion of the Humanities-Federal-State Partnership	68,094
45.130	Promotion of the Humanities-Challenge Grants	130
	Institute of Museum Services	
45.301	Institute of Museum Services	39,365
	Total for Agency	**$900,481**
	National Science Foundation	
47.009	Graduate Research Fellowships	$2,383
47.041	Engineering Grants	143,172
47.049	Mathematical and Physical Sciences	3,198,953
47.050	Geosciences	176,661
47.051	Biological, Behavioral, and Social Sciences	317,825
47.053	Scientific, Technological, and International Affairs	124,762
47.066	Teacher Preparation and Enhancement	174,143
47.067	Materials Development and Informal Science Education	144,308
47.068	Research, Studies, and Program Assessment	3,485
47.069	Research Initiation and Improvement	1,286,748
47.070	Computer and Information Science and Engineering	53,158

State of Montana
Schedule of Federal Financial Assistance by Federal Agency and Program
For the Fiscal Year Ending June 30, 1994

CFDA #	Federal Assistance Program by Federal Agency	1993 - 1994 Assistance Amount
47.071	Undergraduate Science, Mathematics, and Engineering Education	66,720
47.072	Young Scholars	4,805
47.073	Science and Technology Center	1,077,927
47.074	Biological Sciences	1,048,817
47.075	Social, Behavioral and Economic Sciences	23,743
47.076	Education and Human Resources	3,263,014
47.077	Academic Research Facilities and Instrumentation	2,433
47.099	Research Infrastructure	10,532
	Miscellaneous	
47.999	Other Miscellaneous Non-Major Grants	112,394
	Total for Agency	**$11,235,983**
	Small Business Administration	
59.005	Business Development Assistance to Small Business	$7,266
59.009	Procurement Assistance to Small Businesses	15,037
59.037	Small Business Development Center	408,533
	Total for Agency	**$430,836**
	Tennessee Valley Authority	
62.005	Tennessee Valley Region-Natural Resources Development	$14,684
	Total for Agency	**$14,684**
	Department of Veterans Affairs	
	Veterans Health Services and Research Administration	
64.005	Grants to States for Construction of State Home Facilities	$1,617,225
64.014	Veterans State Domiciliary Care	139,909
64.015	Veterans State Nursing Home Care	931,177
	Veterans Benefits Administration	
64.109	Veterans Compensation for Service-Connected Disability	44,448
64.111	Veterans Educational Assistance	63,525
64.124	All-Volunteer Force Educational Assistance	744
64.199	Other Miscellaneous Non-Major Grants	2,967
	National Cemetery System	
64.203	State Cemetery Grants	6,075
	Total for Agency	**$2,806,070**
	Environmental Protection Agency	
	Office of Air and Radiation	
66.AA1	Nonpoint Source Implementation Grant	$558,622
66.SS1	Pollution Prevention Grants	58,322
66.001	Air Pollution Control Program Support	1,298,124
66.032	State Indoor Radon Grants	14,028
	Office of Water	
66.418	Construction Grants for Wastewater Treatment Works	168,041
66.419	Water Pollution Control-State and Interstate Program Support	722,059
66.420	Waste Water - EPA 104(G) FY 94 - (6459)	98,030
66.432	State Public Water System Supervision	867,116
66.435	Water Pollution Control-Lake Restoration Cooperative Agreements	91,256
66.438	Construction Management Assistance	244,906
66.454	Water Quality Management Planning	75,707

CFDA #	Federal Assistance Program by Federal Agency	1993 - 1994 Assistance Amount
66.458	Capitalization Grants for State Revolving Funds	15,029,348
66.460	Nonpoint Source Implementation	110,075
66.461	Wetlands Protection--State Development Grants	320,586
66.463	National Pollutant Discharge Elimination System Related State Program Grants	104,675
	Office of Research and Development	
66.500	Environmental Protection-Consolidated Research	628,439
66.501	Air Pollution Control Research	105,969
66.502	Pesticides Control Research	84,944
66.505	Water Pollution Control-Research, Development, and Demonstration	32,453
66.506	Safe Drinking Water Research and Demonstration	88,379
66.549	BMP Education	15,902
66.599	Other Miscellaneous Non-Major Grants	114,096
	Office of Pollution Prevention and Toxics	
66.700	Consolidated Pesticide Compliance Monitoring and Program Cooperative Agreements	576,180
	Office of Solid Waste and Emergency Response	
66.801	Hazardous Waste Management State Program Support	528,757
66.802	Hazardous Substance Response Trust Fund	1,131,879
66.804	State Underground Storage Tanks Program	148,330
66.805	Underground Storage Tank Trust Fund Program	582,758
66.807	Superfund Innovative Technology Evaluation Program	10,000
66.810	EPA Grant - Emergency Response	19,672
	Office of Prevention, Pesticides and Toxic Substances	
66.900	Pollution Prevention Grants Program	40,178
	Office of Information Resources Management	
66.925	State/EPA Data Management Financial Assistance Program	986
	Office of Environmental Education	
66.950	Environmental Education and Training Program	65,898
66.951	Environmental Education Grants	2,966
	Miscellaneous	
66.999	Other Miscellaneous Non-Major Grants	67,802
	Total for Agency	**$24,006,483**
	Corporation for National Service	
72.003	Volunteers in Service to America	$2,483
	Total for Agency	**$2,483**
	Department of Energy	
81.041	State Energy Conservation	$793,579
81.042	Weatherization Assistance for Low-Income Persons	3,063,797
81.049	Basic Energy Sciences - University and Science Education	282,623
81.050	Energy Extension Service	97,854
81.052	Energy Conservation for Institutional Buildings	375,208
81.077	University Research Instrumentation	158
81.080	Policy, Planning and Program Development	3,802
81.086	Conservation Research and Development	133,323
81.087	Renewable Energy Research and Development	282,285
81.099	Minority Math/Science Leadership Development Recognition	477,016
81.104	Technology Development for Environmental Management	533,881
81.502	State Assistance - FEMA	42,209

State of Montana
Schedule of Federal Financial Assistance by Federal Agency and Program
For the Fiscal Year Ending June 30, 1994

CFDA #	Federal Assistance Program by Federal Agency	1993 - 1994 Assistance Amount
	Miscellaneous	
81.999	Other Miscellaneous Non-Major Grants	1,611,085
	Total for Agency	**$7,696,820**
	United States Information Agency	
82.002	Educational Exchange-University Lectures (Professors) and Research Scholars	$5,331
	Total for Agency	**$5,331**
	Federal Emergency Management Agency	
83.012	Hazardous Materials Assistance Program	$3,333
83.503	Civil Defense-State and Local Emergency Management Assistance	586,949
83.505	State Disaster Preparedness Grants	49,347
83.509	Facility Survey, Engineering and Development	34,576
83.519	Hazard Mitigation Assistance	10,100
83.521	Earthquake Hazards Reduction Grants	57,745
83.528	Emergency Management Institute-Field Training Program	165,652
83.531	State & Local Emergency Management Assistance - Other Assistance	230,415
83.532	Facilities and Equipment	31,364
	Miscellaneous	
83.999	Other Miscellaneous Non-Major Grants	107,113
	Total for Agency	**$1,276,594**
	Department of Education	
84.002	Adult Education-State-Administered Program	$879,208
84.003	Bilingual Education	192,797
84.004	Desegregation Assistance, Civil Rights Training, and Advisory Services	219,801
84.007	Supplemental Educational Opportunity Grants	831,594
84.008	Alcohol and Drug Abuse Education	15,086
84.009	Education of Handicapped Children in State Operated or Supported Schools	187,579
84.010	Chapter 1 Programs -Local Educational Agencies	21,053,610
84.011	Migrant Education-Basic State Formula Grant Program	233,235
84.012	Educationally Deprived Children-State Administration	395,193
84.013	Chapter 1 Program for Neglected and Delinquent Children	100,163
84.024	Early Education for Children with Disabilities	398,798
84.025	Services for Children with Deaf-Blindness	60,175
84.026	Media and Captioned Services for Individuals with Disabilities	1,162
84.027	Special Education-State Grants	7,343,045
84.029	Special Education Personnel Development and Parent Training	312,170
84.031	Higher Education-Institutional Aid	8,037
84.032	Federal Family Education Loans	105,654,318
84.033	Federal Work-Study Programs	2,267,965
84.034	Library Services	400,070
84.035	Interlibrary Cooperation and Resource Sharing	66,751
84.036	Library Career Training	16,398
84.037	Federal Perkins Loan Cancellations	1,179,971
84.038	Federal Perkins Loan Program - Federal Capital Contributions	21,716,704
84.042	Student Support Services	843,036
84.044	Talent Search	378,147
84.047	Upward Bound	768,282
84.048	Vocational Education-Basic Grants to States	4,631,453
84.049	Vocational Education-Consumer and Homemaking Education	70,600
84.053	Vocational Education-State Councils	152,854
84.055	Higher Education-Cooperative Education	155,011
84.061	Indian Education-Special Programs and Projects	403,779

State of Montana
Schedule of Federal Financial Assistance by Federal Agency and Program
For the Fiscal Year Ending June 30, 1994

CFDA #	Federal Assistance Program by Federal Agency	1993 - 1994 Assistance Amount
84.063	Pell Grant Program	16,397,173
84.064	Higher Education-Veterans Education Outreach Program	5,500
84.066	Educational Opportunity Centers	376,709
84.069	Grants to States for State Student Incentives	210,867
84.073	National Diffusion Network	88,033
84.078	Postsecondary Education Programs for Persons with Disabilities	25,648
84.087	Indian Education-Fellowships for Indian Students	39,426
84.091	Strengthening Research Library Resources	40,980
84.094	Patricia Roberts Harris Fellowships	90,937
84.097	Law School Clinical Experience Program	116,546
84.103	Training for Special Programs Staff and Leadership Personnel	28
84.116	Funds for the Improvement of Postsecondary Education	16,153
84.117	Educational Research and Development	40,730
84.120	Minority Science Improvement	58,465
84.123	Law-Related Education	258,282
84.126	Rehabilitation Services-Basic Support	6,827,979
84.128	Rehabilitation Services-Service Projects	707,332
84.129	Rehabilitation Training	19,880
84.133	National Institute on Disability and Rehabilitation Research	546,928
84.144	Migrant Education--Coordination Program	49,632
84.151	Federal, State, and Local Partnerships for Educational Improvement	2,138,577
84.154	Public Library Construction	122,338
84.162	Emergency Immigrant Education	5,721
84.164	Mathematics and Science Education	1,352,480
84.167	Library Literacy	17,617
84.169	Comprehensive Services for Independent Living	269,063
84.170	Jacob K. Javits Fellowships	36,915
84.173	Special Education-Preschool Grants	1,432,528
84.174	Vocational Education-Community Based Organizations	47,500
84.176	Paul Douglas Teacher Scholarships	55,000
84.177	Rehabilitation Services-Independent Living Services for Older Blind Individuals	231,725
84.181	Infants and Toddlers with Disabilities	1,152,386
84.183	Fund for Improvement of Post Secondary Education	22,899
84.185	Robert C. Byrd Honors Scholarships	31,861
84.186	Drug-Free Schools and Communities-State Grants	2,478,377
84.187	Supported Employment Services for Individuals with Severe Handicaps	310,516
84.190	Christa McAuliffe Fellowships	27,369
84.195	Bilingual Education Training Grants	80,588
84.196	State Activities-Education of Homeless Children and Youth	49,117
84.203	Star Schools Program	43,124
84.207	Drug-Free Schools and Communities-School Personnel Training	66,983
84.213	Even Start-Local Education Agencies	313,072
84.214	Even Start - Migrant Education	9,931
84.215	The Secretary's Fund for Innovation in Education	79,590
84.216	Capital Expenses	3,600
84.217	Ronald E. McNair Post-Baccalaureate Achievement	107,843
84.218	State Program Improvement Grants	198,402
84.219	Student Literacy Corps	36,048
84.224	State Grants for Technology-Related Assistance to Individuals with Disabilities	826,011
84.242	National Science Scholars	3,720
84.243	Tech-Prep Education	268,785
84.254	State Literacy Resource Centers	21,425
84.257	Grants for Alcohol Prevention	37,294
84.267	State Postsecondary Review	41,077
84.998	American Printing House for the Blind	3,600
84.999	Other Miscellaneous Non-Major Grants	69,585
	Total for Agency	**$208,846,887**

State of Montana
Schedule of Federal Financial Assistance by Federal Agency and Program
For the Fiscal Year Ending June 30, 1994

CFDA #	Federal Assistance Program by Federal Agency	1993 - 1994 Assistance Amount
	Department of Health and Human Services	
	Administration on Aging	
93.041	Special Programs for the Aging - Title VII, Chapter 3	$20,420
93.042	Special Programs for the Aging - Title VII, Chapter 2	22,009
93.043	Special Programs for the Aging - Title III, Part F	97,756
93.044	Special Programs for the Aging - Title III, Part B	1,465,869
93.045	Special Programs for the Aging - Title III, Part C	2,242,104
93.048	Special Programs for the Aging - Title IV	100,892
	Public Health Service-I	
93.103	Food and Drug Administration-Research	4,061
93.110	Maternal and Child Health Federal Consolidated Programs	105,669
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	101,640
93.118	Acquired Immunodeficiency Syndrome (AIDS) Activity	351,119
93.119	Grants for Technical Assistance Activities-Community Mental Health Services	3,419
93.125	Mental Health Planning and Demonstration Projects	218,655
93.130	Primary Care Services-Resource Coordination and Development Cooperative Agreements	113,983
93.150	Projects for Assistance in Transition from Homelessness	300,000
93.155	Rural Health Research Centers	1,549
93.170	Community Youth Activity Demonstration Grant	239,587
93.176	ADAMHA Small Instrumentation Program Grants	35,883
93.179	State Data Collection - Uniform Alcohol & Drug Abuse Data	93,658
93.184	Disabilities Prevention	218,602
93.193	Urban Indian Health Services	396
93.194	Community Partnership Study Demonstration Grant	3
93.197	Childhood Lead Poisoning Prevention Projects--State and Community-Based Childhood Lead Poisoning Prevention	250,000
93.217	Family Planning-Services	986,263
93.225	National Research Service Awards-Health Services Research Training	13,529
93.226	Health Services Research and Development Grants	29,073
93.242	Mental Health Research Grants	133,362
93.263	Occupational Safety and Health-Training Grants	56,639
93.268	Childhood Immunization Grants	635,053
93.273	Alcohol Research Programs	132,399
93.283	Centers for Disease Control-Investigations and Technical Assistance	158,483
93.333	General Clinical Research Centers	42,651
93.337	Biomedical Research Support	40,153
93.342	Health Professions Student Loans/Loans for Disadvantaged Students	37,862
93.358	Professional Nurse Traineeships	18,576
93.359	Nurse Training Improvement-Special Projects	268,303
93.364	Nursing Student Loans	1,178,076
93.371	Biomedical Research Technology	28,684
93.375	Minority Biomedical Research Support	276,340
93.379	Grants for Graduate Training in Family Medicine	5,895
93.390	Academic Research Enhancement Award	125,304
93.395	Cancer Treatment Research	144,433
93.396	Cancer Biology Research	29,471
93.399	Cancer Control	24,708
	Administration for Children and Families	
93.556	Family Preservation and Support Services	56,047
93.560	Family Support Payments to States-Assistance Payments	42,994,989
93.561	Job Opportunities and Basic Skills Training	2,463,640
93.562	Assistance Payments - Research	34,891
93.563	Child Support Enforcement	5,502,415
93.566	Refugee and Entrant Assistance-State Administered Programs	231,460
93.568	Low-Income Home Energy Assistance	9,015,741
93.569	Community Services Block Grant	1,795,444
93.571	Community Services Block Grant Discretionary Awards-Community Food and Nutrition	5,356
93.572	Emergency Community Services for the Homeless	65,586
93.574	Child Care for Families At-Risk of Welfare Dependency	428,716

CFDA #	Federal Assistance Program by Federal Agency	1993 - 1994 Assistance Amount
93.575	Payments to States for Child Care Assistance	2,323,740
93.600	Head Start	35
93.614	Child Development Associate Scholarships	9,295
93.630	Developmental Disabilities-Basic Support and Advocacy Grants	485,839
93.632	Developmental Disabilities-University Affiliated Facilities	266,267
93.643	Children's Justice Grants to States	89,987
93.645	Child Welfare Services-State Grants	1,159,381
93.656	Temporary Child Care and Crisis Nurseries	62,959
93.658	Foster Care-Title IV-E	6,257,282
93.667	Social Services Block Grant	9,053,231
93.668	Special Programs for the Aging-Training, Research and Discretionary Projects and Programs	104,695
93.669	Child Abuse and Neglect State Grants	98,746
93.671	Family Violence Prevention and Services	166,435
93.672	Child Abuse and Neglect State Prevention Grants	35,486
93.673	Grants to States for Planning and Development of Dependent Care Programs	45,420
93.674	Independent Living	167,952
	Health Care Financing Administration	
93.777	State Survey and Certification of Health Care Providers and Suppliers	1,676,230
93.778	Medical Assistance Program	231,811,441
93.779	Health Care Financing Research, Demonstrations, and Evaluations	125,279
	Social Security Administration	
93.802	Social Security-Disability Insurance	3,120,335
93.807	Supplemental Security Income	20,103
	Public Health Service-II	
93.821	Biophysics and Physiological Sciences	50,755
93.822	Health Careers Opportunity Program	55,753
93.837	Heart and Vascular Diseases Research	13,849
93.838	Lung Diseases Research	154,320
93.846	Arthritis, Musculoskeletal and Skin Diseases Research	79,257
93.854	Biological Basis Research in the Neurosciences	110,466
93.855	Allergy and Immunology Transplantation Research	286,307
93.856	Microbiology and Infectious Diseases Research	843,829
93.859	Pharmacological Sciences	100,879
93.862	Genetics Research	154,432
93.863	Cellular and Molecular Basis of Disease Research	250,084
93.867	Vision Research	139,008
93.880	Minority Access to Research Careers	77,811
93.902	Model Comprehensive Drug Abuse Treatment Programs for Critical Populations	31,092
93.913	Grants to States for Operations of Offices of Rural Health	77,510
93.917	HIV Care Formula Grants	98,267
93.925	Scholarships for Health Profession Students from Disadvantaged Backgrounds	10,432
93.938	Cooperative Agreements to Support Comprehensive School Health Programs	248,459
93.940	HIV Prevention Activities - Health Department Based	223,772
93.951	Demonstration Grants to States with Respect to Alzheimer's Disease	96,271
93.953	Modification of Trauma Care Component of State EMS Plan	138,847
93.958	Block Grants for Community Mental Health Services	1,024,040
93.959	Block Grants for Prevention and Treatment of Substance Abuse	2,677,631
93.977	Preventive Health Services-Sexually Transmitted Diseases Control Grants	158,008
93.991	Preventive Health and Health Services Block Grant	928,874
93.994	Maternal and Child Health Services Block Grant	2,615,166
	Miscellaneous	
93.999	Other Miscellaneous Non-Major Grants	395,873
	Total for Agency	**$341,067,946**

State of Montana
Schedule of Federal Financial Assistance by Federal Agency and Program
For the Fiscal Year Ending June 30, 1994

CFDA #	Federal Assistance Program by Federal Agency	1993 - 1994 Assistance Amount
Corporation for National and Community Service		
94.001	92-93 Commission	$483,701
94.006	Americorps	60,132
	Total for Agency	**$543,833**
Miscellaneous		
99.999	Other Miscellaneous Non-Major Grants	$1,085,385
	Total for Agency	**$1,085,385**
	Grand Total	**$1,003,386,443**

STATE OF MONTANA
NOTES TO THE SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 1994

Note 1. Basis of Accounting

The assistance amounts presented on the accompanying Schedule of Federal Financial Assistance of the State of Montana are generally expenditures or reimbursement revenues recorded on the modified accrual basis. This method recognizes expenditures in the accounting period in which the liability is incurred and revenues when measurable and available. Assistance amounts reported on a basis other than modified accrual are discussed below.

Food Distribution Programs
The amounts reported for Food Distribution programs (CFDA #10.550, 10.553, 10.555, 10.559, 10.567, 10.569, 10.570, and 10.571) represent the dollar value of food commodities distributed to eligible recipients during the year. The amount of funds received to administer the commodities programs may also be included in the reported amount. The U.S. Department of Agriculture provides the current value of the commodities used by the state to compute the amount reported.

Food Stamps Program
The amount reported for the Food Stamps program (CFDA #10.551) represents the face value of the food stamps issued to eligible recipients.

Federal Surplus Personal Property
In accordance with General Service Administration guidelines, the amount presented for Donations of Federal Surplus Personal Property (CFDA #39.003) is valued at 23.3 percent of the original acquisition cost of the property.

Capitalization Grants for State Revolving Funds
The amount presented for the Capitalization Grants for State Revolving Funds (CFDA # 66.458) is comprised of cumulative loans outstanding at June 30, plus the administrative costs expended as of June 30.

Federal Family Education Loans
The amount presented for Federal Family Education Loans (CFDA #84.032) represents the amount of new loans guaranteed, administrative expenses, and loans at risk due to debts and defaults.

Federal Perkins Loan Program - Federal Capital Contributions
The amount reported for the Federal Perkins Loan Program - Federal Capital Contributions (CFDA #84.038) represents the amount of loans outstanding at June 30, plus the administrative costs expended as of June 30.

Note 2. Major Federal Financial Assistance Programs

In accordance with the criteria established by P.L. 98-502 and OMB Circular A-128, a major federal financial assistance program for the State of Montana is defined as assistance to the state exceeding $4 million for any federal program in the fiscal year ended June 30.

The amount reported for CFDA #15.999 includes $ 22,052,161 for the mineral leasing program from the Bureau of Land Management. The mineral leasing program, which does not have a specific CFDA number, was audited as major federal financial assistance.

Note 3. CFDA #

The CFDA # assigned for each federal program listed in the Schedule of Federal Financial Assistance was based upon agency agreements with the federal government and the Catalogs of Federal Domestic Assistance in effect during the audit period.

Programs not assigned a CFDA # in the Catalog of Federal Domestic Assistance were assigned a CFDA # in the format **.*99 or **.999. The first two digits represent the federal agency and the third digit represents the division within the federal agency. In cases where the federal agency does not have a designated CFDA#, the program was assigned a CFDA# in the format 99.999.

Note 4. Cooperative Forestry Assistance Program

The Montana Department of State Lands received Federal Excess Personal Property (FEPP) through the Cooperative Forestry Assistance program (CFDA #10.664) valued at $ 1,536,670 in fiscal year 1993-94. The department's perpetual inventory system accounts for the FEPP based on the original acquisition cost to the federal government. Therefore the records do not reflect the current market value of the property. The department maintains property inventory records for capital and sensitive federal excess equipment, which it reconciles with the USDA, Forest Service every two years. The balance of FEPP on the department's inventory records at June 30, 1994 was $ 9,579,314.

The federal government retains title to the property. The Department of State Lands coordinates disposal of FEPP with the U.S. Forest Service and General Services Administration. All proceeds from the sales go to the federal government. The value of FEPP related to this program is not reflected in the accompanying Schedule of Federal Financial Assistance.

Note 5. Department of Defense Grants

The U.S. Department of Defense obtained a legal opinion that the federal Single Audit Act does not apply to National Guard funds. Therefore, the accompanying Schedule of Federal Financial Assistance does not include any assistance received by the State of Montana from U.S. Department of Defense, Air and Army National Guard.

Note 6. Books for the Blind and Physically Handicapped

The Montana State Library receives "talking book" machines, books, and cassettes from the federal government under the Blind and Physically Handicapped program (CFDA #42.001). These items are then distributed to provide library services to blind and physically handicapped individuals. The federal government retains title to these items. The approximate value of the items in inventory (not distributed to individuals) at June 30, 1994 was $ 1,381,679. The accompanying Schedule of Federal Financial Assistance does not include this amount.

Note 7. Subgrants

Federal assistance subgranted from one Montana state agency to another Montana state agency is excluded from the Schedule of Federal Financial Assistance.

Federal assistance received from nonstate sources which are considered subgrants by the awarding agency are treated as direct grants to the state and are reported on the Schedule of Federal Financial Assistance.

INDEPENDENT AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE BASED ON AN AUDIT OF GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the general purpose financial statements of the state of Montana as of and for the fiscal year ended June 30, 1994, and have issued our report thereon dated December 2, 1994.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

The management of the state of Montana is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the general purpose financial statements of the state of Montana, for the year ended June 30, 1994, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

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We noted certain matters involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the state's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements.

Our audit disclosed a reportable condition concerning internal controls at an agency. The condition relates to inappropriate design and incomplete implementation of control policies and procedures in several of the internal control structure elements. This matter is discussed in issues 5-1 through 5-8 in the Federal Issues, Recommendations, and Responses by State Agency section of this document.

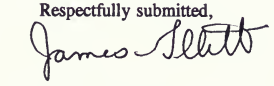
A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable condition described above is a material weakness. This condition was considered in determining the nature, timing, and extent of procedures to be performed in our audit of the general purpose financial statements of the state of Montana for the fiscal year ended June 30, 1994.

We also noted other matters involving the internal control structure and its operation that we reported to the management of the state of Montana during the course of our audit work.

This report is intended for the information of the audit committee, management, and the Montana State Legislature. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Respectfully submitted,



James Gillett, CPA
Deputy Legislative Auditor

December 2, 1994

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE BASED ON AN AUDIT OF GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the general purpose financial statements of the state of Montana as of and for the fiscal year ended June 30, 1994, and have issued our report thereon dated December 2, 1994.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the state of Montana is the responsibility of the state of Montana's management. As part of obtaining reasonable assurance about whether the general purpose financial statements are free of material misstatement, we performed tests of the state of Montana's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the general purpose financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

The results of our tests disclosed immaterial instances of noncompliance with the above requirements that we reported to the management of the state of Montana during the course of our audit work.

This report is intended for the information of the audit committee, management, and the Montana State Legislature. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

December 2, 1994

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Federal Single Audit Reports

Federal Single Audit Reports

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INDEPENDENT AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE USED IN ADMINISTERING FEDERAL FINANCIAL ASSISTANCE PROGRAMS

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the general purpose financial statements of the state of Montana as of and for each of the fiscal years ended June 30, 1994 and June 30, 1995, and have issued our reports thereon dated December 2, 1994 and October 18, 1995, respectively. We have also audited the state of Montana's compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated October 18, 1995.

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audits to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement and about whether the state of Montana complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audits for the fiscal years ended June 30, 1994 and June 30, 1995, we considered the state of Montana's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the general purpose financial statements, and on its compliance with requirements applicable to major programs, and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audits of the general purpose financial statements in separate reports dated December 2, 1994 and October 18, 1995, respectively.

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The management of the state of Montana is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles, and that federal financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories.

Accounting

Cash
Revenue/Receivables
Expenditures/Payables
Central Data Processing
Property, Plant and Equipment
Payroll
Investments
Long Term Debt
Federal Assistance
Inventory
Budget Amounts
State Compliance

Administrative

General Requirements
Political Activity
Davis-Bacon Act
Civil Rights
Cash Management
Relocation Assistance and Real Property Acquisition
Federal Financial Reports
Allowable Costs/Cost Principles
Drug-Free Workplace
Administrative Requirements

Specific Requirements
Types of Services
Eligibility
Matching, Level of Effort, or Earmarking
Reporting
Cost Allocation
Special Requirements
Monitoring Subrecipients

Claims for Advances and Reimbursements

Amounts Claimed or Used For Matching

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

Because of the large number of nonmajor programs and the decentralized administration of these programs, we performed procedures to obtain an understanding of the internal control structure policies and procedures relevant to nonmajor programs on a three year cyclical basis. Our procedures covered 98 percent and 97 percent for the fiscal years ended June 30, 1994 and June 30, 1995, respectively, of the nonmajor programs administered by the

state of Montana as a whole. The nonmajor programs not covered during the fiscal years ended June 30, 1994 and June 30, 1995 have been or are expected to be subject to such procedures at least once during the three year cycle.

During each of the fiscal years ended June 30, 1994 and June 30, 1995, the state of Montana expended 85 percent of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to each of the state's major federal financial assistance programs, which are identified in the accompanying Schedules of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the state's ability to administer federal financial assistance programs in accordance with applicable laws and regulations.

Our audit disclosed a reportable condition concerning internal controls at an agency. The condition relates to inappropriate design and incomplete implementation of control policies and procedures in several of the control categories described above. These matters are discussed in issues 5-1 through 5-8, respectively, in the Federal Issues, Recommendations, and Responses by State Agency section of this document.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

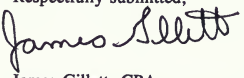
Our consideration of the internal control structure policies and procedures used in administering federal financial assistance programs would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable condition related to an agency described above is a material weakness. These matters are discussed in issues 5-1 through 5-8 in the Federal Issues, Recommendations, and Responses by State Agency section of this document. This condition was considered in determining the nature, timing, and extent of procedures to be performed in our audit of the compliance of the state of Montana

with requirements applicable to its major Federal Financial Assistance programs for the fiscal years ended June 30, 1994 and June 30, 1995.

We also noted other matters involving the internal control structure and its operation that we reported to the management of the state of Montana during the course of our audit work.

This report is intended for the information of the audit committee, management, the federal cognizant audit agency, federal grantor agencies, and the Montana State Legislature. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Respectfully submitted,



James Gillett, CPA
Deputy Legislative Auditor

October 18, 1995

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH THE GENERAL REQUIREMENTS APPLICABLE TO FEDERAL FINANCIAL ASSISTANCE PROGRAMS

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the general purpose financial statements of the state of Montana as of and for each of the fiscal years ended June 30, 1994 and June 30, 1995, and have issued our reports thereon dated December 2, 1994 and October 18, 1995, respectively.

We have applied procedures to test the state of Montana's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance for each of the fiscal years ended June 30, 1994 and June 30, 1995.

Cash Management
Political Activity
Federal Financial Reports
Allowable Costs/Cost Principles
Relocation Assistance and Real Property Acquisition
Civil Rights
Davis-Bacon Act
Drug-Free Workplace
Administrative Requirements

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's Compliance Supplement for Single Audits of State and Local Governments. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the state of Montana's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the state of Montana had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying Schedule of Questioned Costs and the Federal Issues, Recommendations, and Responses by State Agency section of this document.

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This report is intended for the information of the audit committee, management, the federal cognizant audit agency, federal grantor agencies, and the Montana State Legislature. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Respectfully submitted,

James Gillett, CPA
Deputy Legislative Auditor

October 18, 1995

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH SPECIFIC REQUIREMENTS APPLICABLE TO MAJOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the general purpose financial statements of the state of Montana as of and for each of the fiscal years ended June 30, 1994 and June 30, 1995, and have issued our reports thereon dated December 2, 1994 and October 18, 1995, respectively.

We have also audited the state of Montana's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; cost allocation; special tests and provisions as described in the Office of Management and Budget (OMB) *Compliance Supplement for Single Audits of State and Local Governments*; monitoring subrecipients; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying Schedules of Federal Financial Assistance, for each of the fiscal years ended June 30, 1994 and June 30, 1995. The management of the state of Montana is responsible for the state of Montana's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audits.

We conducted our audits of compliance with those requirements in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audits to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the state of Montana's compliance with those requirements. We believe that our audits provide a reasonable basis for our opinion.

The results of our audit procedures disclosed instances of material noncompliance with the requirements listed above. An agency did not comply with specific requirements for eligibility. In our opinion, compliance with the specific requirements for the Foster Care -

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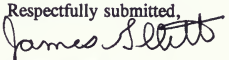
Title IV-E (CFDA #93.658) is necessary for the state of Montana to comply with the requirements applicable to this major program. This condition is further described in issue 5-6 in the Federal Issues, Recommendations, and Responses by State Agency section of this document.

In addition, the results of our audits disclosed immaterial instances of noncompliance with the requirements referred to in the second paragraph of this report, which are listed in the accompanying Schedule of Questioned Costs and described in the Federal Issues, Recommendations, and Responses by State Agency section of this document. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, except for the instance of noncompliance with the requirement referred to in the fourth paragraph of this report and identified in the accompanying Schedule of Questioned Costs and the Federal Issues, Recommendations, and Responses by State Agency section of this document, the state of Montana complied, in all material respects, with the requirements referred to in paragraph two of this report that are applicable to each of its major federal financial assistance programs for the fiscal years ended June 30, 1994 and June 30, 1995.

This report is intended for the information of the audit committee, management, the federal cognizant audit agency, federal grantor agencies, and the Montana State Legislature. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Respectfully submitted,



James Gillett, CPA
Deputy Legislative Auditor

October 18, 1995

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH SPECIFIC REQUIREMENTS APPLICABLE TO NONMAJOR FEDERAL FINANCIAL ASSISTANCE PROGRAM TRANSACTIONS

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the general purpose financial statements of the state of Montana as of and for each of the fiscal years ended June 30, 1994 and June 30, 1995, and have issued our reports thereon dated December 2, 1994 and October 18, 1995, respectively.

In connection with our audit of the general purpose financial statements of the state of Montana and with our consideration of the state of Montana's control structure used to administer federal financial assistance programs, as required by Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*, we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the fiscal years ended June 30, 1994 and June 30, 1995. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; cost allocation; special tests and provisions as described in OMB *Compliance Supplement for Single Audits of State and Local Governments*; monitoring subrecipients; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the state of Montana's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the state of Montana had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are listed in the accompanying Schedule of Questioned Costs and described in the Federal Issues, Recommendations, and Responses by State Agency section of this document.

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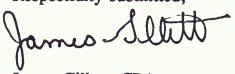
This report is intended for the information of the audit committee, management, the federal cognizant audit agency, federal grantor agencies, and the Montana State Legislature. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Respectfully submitted,



James Gillett, CPA
Deputy Legislative Auditor

October 18, 1995

STATE OF MONTANA
SCHEDULE OF QUESTIONED COSTS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1995

STATE AGENCY: CFDA #	Federal Program Name	Amount Questioned	Finding References
Montana School for the Deaf and Blind:			
84.010	Chapter I Programs - Local Educational Agencies	$ 1,265	1- 3
Department of Corrections and Human Services:			
93.992	Alcohol and Drug Abuse and Mental Health Services Block Grant	19,544	3- 1
84.002	Adult Education - State-Administered Basic Grant Program	11,845	3- 1
84.010	Chapter I Programs - Local Educational Agencies	7,722	3- 1
93.170	Community Youth Activity Demonstration Grants	25,999	3- 1
84.010	Chapter I Programs - Local Educational Agencies	3,350	3- 3
93.226	Health Services Research and Development Grants	2,743	3- 4
93.242	Mental Health Research Grants	791	3- 4
93.125	Mental Health Planning and Demonstration Projects	917	3- 4
93.171	Community Youth Activities Project Block Grants	2,683	3- 4
93.179	State Data Collection - Uniform Alcohol and Drug Abuse Data	4,426	3- 4
Department of Public Health and Human Services:			
93.658	Foster Care - Title IV-E	58,046	5- 2
93.778	Medical Assistance Program	218	5- 2
93.560	Family Support Payments to States - Assistance Payments	1,092	5- 2
93.658	Foster Care - Title IV-E	28,823	5- 4
93.575	Payments to States for Child Care Assistance	36,199	5- 4
93.658	Foster Care - Title IV-E	12,120	5- 5
93.778	Medical Assistance Program	457	5- 5
93.658	Foster Care - Title IV-E	11,175	5- 6
93.658	Foster Care - Title IV-E	165,497	5- 8
93.560	Family Support Payments to States - Assistance Payments	31,671	5- 8
93.566	Refugee and Entrant Assistance - State Administered Programs	13,164	5-10
93.630	Developmental Disabilities - Basic Support and Advocacy Grants	3,045	5-15
93.568	Low-Income Home Energy Assistance	73	5-17
10.551	Food Stamps	60	5-21
Department of Labor and Industry:			
10.551	Food Stamps	56	7- 2
10.551	Food Stamps	793	7- 2
17.246	Employment and Training Assistance - Dislocated Workers	3,631	7- 2
17.250	Job Training Partnership Act	161	7- 2
17.250	Job Training Partnership Act	7,128	7- 2
17.225	Unemployment Insurance	76	7- 2
93.561	Job Opportunities and Basic Skills Training	1,514	7- 2
Montana State University-Bozeman:			
84.063	Pell Grant Program	30,687	9- 2
66.461	Wetlands Protection - State Development Grants	25	9- 3
10.961	International Agricultural Research	75	9- 3
20.205	Highway Planning and Construction	370	9- 4
10.200	Grants for Agricultural Research, Special Research Grants	100	9- 4
Montana State University-Northern:			
84.032	Federal Family Education Loans	4,334	10-1
Department of Natural Resources and Conservation:			
83.516	Disaster Assistance	37,450	12-2
10.664	Cooperative Forestry Assistance	22,153	13-3
TOTAL QUESTIONED COSTS IN THIS SINGLE AUDIT REPORT		$551,478	

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Direct resolution of federal issues to:
Single Audit Coordinator
Office of Budget and Program Planning
Room 202, State Capitol
Helena, MT 59620
Phone: (406) 444-3616

Montana School for the Deaf and Blind

Federal Compliance

The school participates in several federal programs. Most of the money it receives is subgranted through the Office of Public Instruction. Federal assistance related to captioned films and books for the blind is subgranted from entities outside Montana. We identified the following areas where the school could improve controls to ensure compliance with federal regulations.

1-1 Captioned Films

The school has a federally sponsored contract (CFDA #84.026) with Modern Talking Picture Services, Inc. (Modern). The contract requires the school to circulate captioned films to schools throughout Montana upon request. In exchange, the school receives $80 per month, $2.44 per film mailed, and reimbursement for postage and supplies. The contract requires the school to promote the program, and increase the distribution of films each year. The contract further requires the school to submit monthly invoices identifying the number of films mailed and the detail of reimbursable expenditures incurred by the school.

We noted as of August 1994 the school had not submitted invoices to Modern for July and August 1992; July, August and October 1993; or January, February, March, May and June of 1994. We also noted the school did not request any reimbursements for items other than postage. They can request reimbursement for items such as photocopies and packaging supplies. Personnel stated that with the loss of two library aides, the amount of work the librarian must do has increased and she does not have time to work with the captioned films. They also stated the reimbursable items would be minimal.

Since the school does not track the costs of this operation, it cannot be sure the reimbursable expenditures are minimal. If the school intends to keep this contract, personnel should ensure the requirements of the contract are fulfilled. Another option for the school would be to no longer participate in this contract. The school and other schools throughout Montana would still be able to request captioned films from depositories in other states, but there would be a longer film delivery time.

Recommendation #1-1

We recommend the school:

A. Comply with contract requirements for the captioned film program or terminate the contract.

B. Request reimbursement for captioned film program expenditures to the fullest extent possible.

Agency Response #1-1
Concur - (A) The school is in compliance with contract requirements; (B) Concur - The school will seek reimbursement for all costs allowed under the contract.

1-2 School Foods

The school participates in the federal school breakfast (CFDA #10.553) and school lunch (CFDA #10.555) programs. The school tracks the number of meals served and reports monthly to the Office of Public Instruction (OPI). OPI reimburses the school based on a set rate per meal served.

Federal regulations require schools to have accurate support for all reports submitted for meal reimbursements. We selected eight claims for reimbursement to determine if the reports were accurate. We noted tabulation errors in five of these reports.

By not having adequate controls in place to ensure meal counts are accurate, the school is not complying with federal regulations. In most of the instances we noted, the school had reported fewer meals than were actually served, thereby not collecting as much money as it could have. Under the current system personnel could as easily report more meals than those actually served which would result in over-reimbursement. It is important the school accurately report the number of meals served.

We identified problems with the meal counts in our previous audit as well. The school implemented procedures where one person totaled the counts and another person reviewed the counts. The

school could improve the accuracy of the counts by creating a daily meal form that is easier to prepare.

Recommendation #1-2

We recommend the school enhance controls over meal counts to ensure completeness and accuracy of federal reports.

Agency Response #1-2
Concur - The school redesigned the meal count form to enhance accuracy and is having a second staff member double check the meal count.

1-3 Administrative Cost Recovery

Federal regulations allow state agencies to recover reimbursement for indirect costs necessary for the administration of federal grants. Recovery of indirect costs reduces the state money required to support federal programs. The school negotiates an indirect cost rate with the federal government each year to recover indirect costs.

Federal regulations do not allow the cost of the school superintendent's office to be included in the calculation of the indirect cost rate because these costs are general costs of the school. When the school calculated its indirect cost rate for fiscal year 1993-94, it incorrectly included the costs of the superintendent and his secretary in the calculation.

The school calculated an indirect cost rate of 18.76 percent. The proper rate would have been 15.17 percent. The only program the school can charge indirect costs to is Chapter 1 (CFDA #84.010). The school over-charged indirect costs because its rate was higher than it should have been. As a result, we question $1,265 of costs claimed for federal reimbursement.

Recommendation #1-3

We recommend the school calculate its federal indirect cost rate in accordance with federal regulations.

Agency Response #1-3
Concur - The school filed an amended indirect cost rate with the Office of Public Instruction.

2-1 Subrecipient Monitoring

The department subgrants federal financial assistance moneys it receives from the U.S. Federal Emergency Management Agency. During the audit period, the department awarded over $1 million of federal funds to subrecipients. The department subgrants federal funds to counties and the Fire Services Training School of Montana State University - Bozeman.

The Office of Management and Budget (OMB) Circular A-128, requires a state or local government that receives federal assistance and provides $25,000 or more in a fiscal year to a subrecipient to ensure the subrecipient meets certain requirements. One requirement is to determine whether subrecipients have met applicable federal audit requirements. Another requirement is to determine whether the subrecipient spent federal assistance funds provided in accordance with applicable laws and regulations.

We noted the department has not established a system to ensure the requirements of OMB Circular A-128 are met. This includes obtaining an audit report from the subrecipient, monitoring for compliance with federal regulations, following up on deficiencies noted, and ensuring records are retained for the required length of time.

Department personnel stated they were not aware of the OMB Circular A-128 requirements. Department personnel attended a training course in August 1994 regarding this circular and its requirements. The department should ensure subrecipients have audits completed which comply with OMB Circular A-128. The department should also establish a system to monitor the subrecipients' compliance with applicable grant requirements.

Title 2, chapter 7, part 5, MCA, is cited as the State Single Audit Act. The Act places the responsibility of auditing all counties, at least every two years, on the Local Government Services Bureau (LGS) of the Department of Commerce. An audit conducted pursuant to this part is in lieu of any compliance audit that a local government is required to conduct under any other federal regulation. As grantor, the department is responsible to ensure subrecipient contracts are properly administered and the required

audits are conducted. When establishing its subrecipient monitoring system, the department should contact LGS and ensure no duplication exists between the departments.

Recommendation #2-1

We recommend the department:

A. Ensure subrecipients have audits completed which comply with federal requirements.

B. Establish a system to monitor subrecipients' compliance with applicable grant requirements.

Agency Response #2-1

A. Since January of 1995, Disaster and Emergency Services Division (DES) receives and reviews monthly printouts from the Local Government Services Bureau (LGS), Department of Commerce with the following information by county: audit period, audit due date, audit received date, the date the entity receives the audit, and the organization conducting the audit. If an audit identifies non-conformance to applicable laws and regulations, DES would be notified in writing by LGS.

B. DES now requires, at the beginning of the Federal Fiscal Year, County Commissioners' sign a Statement of Work, and a Summary Sheet for Assurances and Certifications. One item of the Statement of Work requires the jurisdiction to submit a quarterly progress report to the respective DES District Representative. This person reviews each report and monitors compliance to the Statement of Work. If there is a non-compliance issue the District Representative makes a recommendation to the DES Administrator on what needs to be done to maintain compliance. Withholding of funds has been the most severe option.

Federal Compliance

The department receives financial assistance from several federal agencies including the U.S. Departments of Health and Human Services, Justice, Education, Agriculture, and Veterans Affairs. During fiscal year 1993-94 the department spent approximately $8 million relating to federal programs. We performed tests to determine the department's compliance with selected federal regulations. We identified the following areas where the department could improve procedures to comply with federal regulations.

3-1 Time and Effort Reporting

OMB Circular A-87 governs the allowability of charges to federal programs with the exception of the Alcohol and Drug Abuse and Mental Health Services (ADMS) block grant (CFDA #93.992). The ADMS block grant has specific federal regulations that define allowable charges. OMB Circular A-87 states when employees work on multiple activities or cost objectives, a distribution of their salary or wages to a federal assistance program must be supported by personnel activity reports, commonly referred to as time and effort reports. Federal regulations over the ADMS block grant do not specifically require time and effort reporting. These regulations define allowable charges as those charges that are reasonable and for the benefit of substance abuse and mental health services.

We identified two employees at the central office and one employee at Montana State Prison (MSP) who work on more than one activity. For the two instances at the central office the employees worked on both state and federal assistance programs but their full salaries were charged to the federal assistance programs. At MSP the employee worked on two federal grants. The charges to each grant varied based on the amount of grant money in relation to the employee's total salary. The department did not properly charge the salaries to appropriate programs because the employees did not complete time and effort reports. Personnel indicated they were not aware of the time and effort federal reporting requirement.

We question the following federal charges during fiscal year 1992-93 and 1993-94:

Federal Source	Fiscal Year 1992-93	1993-94
Alcohol and Drug Abuse and Mental Health Services Block Grant (CFDA #93.992)	$19,544	
Adult Basic Ed (CFDA #84.002)	11,845	
Chapter 1 (CFDA #84.010)	7,722	
Community Youth Activity Project (CFDA #93.170)		$25,999

The department should establish a system to track time and effort for the purpose of supporting personal services charged to federal assistance programs. During our follow-up in 1995, we found the department has implemented this recommendation.

Recommendation #3-1

We recommend the department charge personal services costs based on actual time and effort spent on federal assistance programs.

Agency Response #3-1

Concur. On April 7, 1994, a memorandum was issued to federal grant administrators within the department outlining procedures which will ensure compliance with OMB Circular A-87 regarding personal services charges to federal assistance programs. The follow-up audit in FY95 verified that the department has implemented this recommendation.

3-2 Specific Compliance Requirements

The department receives the Alcohol and Drug Abuse and Mental Health Services (ADMS) block grant (CFDA #93.992) from the federal government. The federal government has set forth spending requirements for this grant. A portion of the grant is designated for substance abuse and a portion is designated for mental health services. Of the amount allocated for substance abuse, at least 35 percent must be used for alcohol activities, at least 35 percent for drug abuse activities, and at least 20 percent for prevention and early intervention prevention activities.

We reviewed the allocation of the 1992 ADMS block grant, which covers April 1992 through March 1993, to determine if the department complied with grant requirements. We noted the department complied with the allocation requirements for drug abuse and alcohol activities but did not spend enough on prevention. The department should have spent $461,385 on prevention. The department spent $443,532 on prevention through contracts with various providers. The department reported it had one employee whose primary duties were prevention and added the employee's full salary and benefits of $30,870 to the amount spent through contracts to meet the percentage requirements.

Department personnel estimated the employee actually spent only 45 percent of the time on the ADMS block grant. After reducing the salary allocation, we determined the department had not met the requirements of the ADMS block grant. When we brought this to the attention of management, personnel moved the employee's entire salary to the General Fund and made additional payments to contractors. With this adjustment the department is now in compliance with the federal regulations.

During our follow-up in 1995, we found the department has implemented this recommendation.

Recommendation #3-2

We recommend the department establish controls to ensure it spends the ADMS block grant as required by law.

Agency Response #3-2

Concur. Because of the implementation of time and effort reporting, as described in response to recommendation #3-1, the department believes that proper controls are now present on grant expenditures to ensure compliance with law. The follow-up audit in FY95 verified that the department has implemented this recommendation.

3-3 Maintenance of Effort

The Montana Developmental Center (MDC) receives federal assistance from the ESEA Chapter 1 (Elementary and Secondary Education Act) program (CFDA #84.010) through the Office of Public Instruction. The objective of this program is to meet the special educational needs of educationally deprived children in school attendance areas with children from low income families. One requirement that must be met to receive these funds is the receiving agency must spend (from nonfederal sources) at least 90 percent of the funds spent the previous year on free and public education, unless it receives a waiver from the grantor. We reviewed MDC's calculations to determine whether it maintained the effort as required by federal regulations.

MDC should have spent at least $64,045 in each of fiscal years 1990-91 and 1991-92 to meet the required maintenance of effort. MDC spent $32,394 in fiscal year 1990-91, and $37,515 in fiscal year 1991-92. Therefore, MDC was not eligible to receive Chapter 1 funds in fiscal year 1992-93 and we question the full grant award of $3,350. Department personnel indicated they do not intend to request Chapter 1 funds in the future.

During our follow-up in 1995, we found the department has implemented this recommendation.

Recommendation #3-3

We recommend the department:

A. Comply with the federal requirements related to ESEA Chapter 1.

B. Work with the Office of Public Instruction to ensure MDC resolves the questioned costs for the 1992-93 ESEA Chapter 1 award.

Agency Response #3-3

Concur. The department has returned the funds in question to OPI and will not renew the Chapter 1 grant at the Montana Developmental Center in the future because the client pool which meets grant requirements is not large enough to cover administration costs of the grant. The follow-up audit in FY95 verified that the department has implemented this recommendation.

3-4 Administrative Cost Recoveries

Federal regulations allow state agencies reimbursement for indirect costs related to the administration of federal grants. Section 17-3-111, MCA, requires state agencies to recover indirect costs to the fullest extent possible. Recovery of indirect costs may reduce the amount of state money required to support federal programs. The following section discusses an area where the department could improve controls over the recovery of indirect costs.

Indirect Cost Calculations

Each state fiscal year the department prepares an indirect cost rate proposal which is submitted to the federal government for approval. The federal government approved a 10.1 percent and an 8 percent rate in fiscal years 1992-93 and 1993-94, respectively, for the department. We reviewed six grants to determine whether the department properly charged indirect costs to grants.

Federal regulations state that when a grant crosses state fiscal years the indirect cost rate for that grant changes to the new rate regardless of the rate in existence at the time the grant was awarded. We noted the department was using old indirect cost rates for four of the grants. Since the indirect cost rates have been decreasing the department overcharged the federal government. We also noted the department did not correctly apply the current year's indirect cost rate. Based on these errors we question the following charges in fiscal year 1992-93:

Catalog of Federal Domestic Assistance Number	Grant Description	Amount Questioned
93.226	Mental Health - Human Resource Development	$2,743
93.242	Mental Health - Data Grant	791
93.125	Child Adolescence Support Services Project	917
93.171	Community Youth Activities Project Block Grant	2,683
93.179	Alcohol and Drug Abuse Division - Data Grant	4,426

Department personnel correctly charged indirect costs in fiscal year 1993-94. During our follow-up in 1995, we found the department has implemented this recommendation.

Recommendation #3-4

We recommend the department apply indirect cost rates in accordance with federal regulations.

Agency Response #3-4
Concur. The department will use the indirect rate in effect each fiscal year regardless of the rate in existence at the time the grant was awarded. The follow-up audit in FY95 verified that the department has implemented this recommendation.

3-5 Supplemental and Social Security Income

The majority of residents at the Montana Developmental Center (MDC) receive Social Security (SSA) and Supplemental Security Income (SSI). The federal government pays SSA each month for the previous month. When an SSA recipient dies during the month, the estate does not collect SSA for that month. SSI is paid at the beginning of the month for that month. SSI recipients dying during the month are still eligible to receive that month's SSI.

We reviewed the files of all eight residents who died at MDC between July 1, 1992 and September 31, 1994. We noted one resident died June 30, 1993 and had received SSA for June on July 2, 1993. MDC did not return the $468 to SSA even though personnel knew that patient should not have received the payment. We also noted one patient died March 12, 1993 and received $30 of SSI for the month of April on April 1, 1994. Again MDC did not return the payment. In both instances MDC used the money to help cover the costs of funeral arrangements.

Personnel indicated they only return SSI and SSA payments if the federal government specifically requests them to do so. Keeping money, knowing the residents are not entitled to the receipts, constitutes fraud based on the definition set forth by the federal

government. We notified the Attorney General, the Governor's Office and the Social Security Administration as required by state law and federal regulations. Since that time, the department has returned $468 to the federal government and intends to return the remaining $30. The department should ensure employees comply with the SSA and SSI regulations. During our follow-up in 1995, we found the department has implemented this recommendation.

Recommendation #3-5

We recommend the department comply with federal regulations regarding SSA and SSI.

Agency Response #3-5

Concur. As part of the notification of death to the Social Security Administration, the Montana Developmental Center will request either an approved Waiver of Repayment or a Request for Repayment to allow use of monies received after death or to have adequate documentation for return of money received. The follow-up audit in FY95 verified that the department has implemented this recommendation.

3-6 General Requirements

There are several general compliance requirements applicable to all federal financial assistance programs. Recipients of federal funds are required to establish controls to ensure compliance with these requirements. Failure to follow these requirements could adversely impact all future federal funding for the department. We determined the department did not comply with several of these requirements.

Political Activity and Civil Rights

Federal regulations prohibit discrimination and the use of federal moneys for political activity. Department personnel stated every contract includes clauses which state no person shall be excluded from participation in any federally funded program because of race, color, national origin, age, or handicap; and no federal funds are to be used for political activity. We reviewed ten contracts to determine whether contracts did include clauses related to civil rights and political activity. Five contracts did not have the appropriate clauses. The source of funds and contract amounts are as follows:

FEDERAL SOURCE	Contract Amount
Fiscal Year 1992-93	
Mental Health - Human Resources Development (CFDA #93.226)	$5,000
Alcohol and Drug Abuse Division (CFDA #93.902)	2,000
Alcohol and Drug Abuse Division (CFDA #93.902)	4,900
Fiscal Year 1993-94	
Alcohol and Drug Abuse Division Data Grant (CFDA #93.179)	3,000
Mental Health - Data (CFDA #93.242)	1,800

Department personnel indicated they began implementing a standard form for service contracts in fiscal year 1993-94, and the two fiscal year 1993-94 contracts were overlooked.

Drug-Free Work Place

Federal regulations require all recipients of federal assistance to certify they will provide a drug-free work place. This is typically done through policy statements and notifying federal agencies when employees working on federal assistance programs are convicted of drug violations occurring in the work place.

The department has not communicated its current drug-free work place policy to all of its employees. One method to achieve this is posting the policy on bulletin boards. The department was not aware of the requirement to notify federal agencies of drug convictions. Currently, the department is notified of employees convicted on drug charges through news reports or word of mouth. The department handles disciplinary actions at that time.

Eligibility

The federal government publishes a list of entities or individuals who are not eligible to receive federal financial assistance (referred to by the federal government as debarments and suspensions). Federal regulations require agencies to subgrant or subcontract federal funds only to eligible entities and individuals. The department subgrants or subcontracts the majority of its federal funds.

In fiscal year 1993-94 the department started building a new veterans' home in Glendive. This project was funded with federal funds. The department bills the federal government while the Department of Administration's Architecture and Engineering Division (A&E) is responsible for the construction of the home. The department thought A&E would check for eligibility, but A&E did not. We reviewed the listing of subcontractors on the building project, and determined all parties are eligible to participate in the project. Since the department is responsible for the grant, department personnel should ensure all contractors are eligible to participate in the project.

Department personnel stated they were not aware a list of ineligible parties existed until we brought it to their attention. The department has since obtained a copy of this list. The department should include an eligibility check in its contracting procedures.

Status Update

During our follow-up in 1995, we found the department has implemented this recommendation.

Recommendation #3-6

We recommend the department establish procedures to ensure it complies with federal regulations regarding political activity, drug-free work place, and eligibility.

Agency Response #3-6

Concur. The department has standardized and centralized its contracting process in FY94 and federal contracts will include political activity and civil rights clauses in the body of each agreement. Also, the federal regulations regarding drug-free work

place notification are currently being incorporated into an updated policy manual to be distributed throughout the agency. Compliance with this policy will be monitored by the Personnel Bureau of the department. Finally, the Contracts Officer for DCHS will ensure that parties receiving federal funds have not been suspended or debarred prior to the start of the contract. The follow-up audit in FY95 verified that the department has implemented this recommendation.

4-1 Policies and Procedures

The function of specific policies and procedures is to guide personnel in performing duties in a consistent, timely, and accurate manner. Establishing and implementing department-wide policies and procedures strengthens management's control over operations and helps to assure continuity of operations, controls, and compliance with state and federal laws and regulations as staffing changes occur. The department is responsible for complying with and enforcing state and federal public health and environmental laws and regulations. It received $37.6 million in federal assistance during fiscal year 1993-94, (primarily from the U.S. Department of Agriculture, U.S. Department of Health and Human Services, and the Environmental Protection Agency) to fulfill these responsibilities.

The department's full-time equivalent (FTE) have increased from 299 in fiscal year 1989-90 to an authorized level of 451 in fiscal year 1993-94. This is an increase of 152 FTE, or 50 percent, during the four year period. During fiscal year 1993-94, several department administrators retired and the department was reorganized with acting administrators named to the vacant or newly created administrative positions.

We found lack of formal policies and procedures and lack of staff awareness of existing policies and procedures caused inconsistencies in operations and impeded efficiency and effectiveness of department personnel. We found the department could improve its operations and compliance with state and federal requirements if it adopted, formalized, and/or revised policies and procedures. Specific policy areas noted for improvement include payroll reporting, subrecipient monitoring, drug-free workplace, and internal computer security, as discussed in the following report sections. We also noted instances indicating a need for more comprehensive policies and procedures related to contract management. Because this issue is addressed in a contract compliance report prepared by the department's internal auditor, we make no specific recommendation at this time.

The department's Policy and Procedures Manual is not readily available to all staff. The department distributes policies and

procedures to the director, deputy director, administrative officer, administrative secretary, Montana Health Care Authority, Petroleum Tank Release Compensation Board, legal unit, the Billings and Polson offices, and each division administrator and bureau chief. It is the responsibility of division administrators and bureau chiefs to inform their staff of new policies and procedures. Some request extra copies of new policies and procedures for distribution to staff.

The distribution of new policies and procedures is based on the department's current telephone list and informal communications with the employee responsible for distributing the policies. There is no formal list of employees who have the Policy and Procedures Manual, so there is no way to ensure 1) all employees who should have manuals actually have them, and 2) all employees who have manuals receive updates. The department's internal auditor found during his recent contract management audit "1) An exact inventory of the holders of the policy manuals is not current or available; 2). . . most employees were not aware of the manual's existence or where to find a copy of one; and 3) Manuals are not complete and in some cases contain outdated information."

It is difficult to determine what guidance staff have received. We observed a manual containing internal memoranda that were not officially issued as policies and procedures. These memoranda indicate staff receive guidance through processes less formal than issuance of policies and procedures. We also noted one bureau chief circulated his manual among staff with a request dated January 11, 1993, for staff to read the manual. The manual had been read by 13 of 19 staff as of August 2, 1994.

The department should emphasize to management and staff the importance of following policies and procedures. It should also implement a process, including training and supervisory review, to ensure policies and procedures are communicated to and followed by affected employees in a timely manner.

During our follow-up in 1995, we found the department did not implement this recommendation because of a planned executive branch reorganization which went into effect July 1, 1995. On that

date, the department's health functions were allocated to the Department of Public Health and Human Services (DPHHS) and its environmental functions were allocated to the Department of Environmental Quality (DEQ). Since this recommendation was not implemented prior to the reorganization, we asked DPHHS and DEQ to respond.

Recommendation #4-1

We recommend the department:

A. Develop appropriate department-wide policies and procedures in a timely manner.

B. Ensure policies and procedures are communicated to and followed by employees.

Agency Response #4-1
DEQ: Concur.
DPHHS: The Department of Public Health and Human Services is in the process of developing and implementing policies and procedures for the new agency. Such policies and procedures will be coordinated throughout DPHHS on an on going basis, and will be monitored and enforced at the Division and Director levels, as has been the case with SRS for the past several years.

4-2 Payroll Reporting Procedures

The department expended over $14 million in fiscal year 1993-94 on personal services. It's Policy and Procedures Manual contains a Payroll Reports policy which states "The payroll report . . . must accurately reflect the employee's work schedule for each two-week period." Federal regulations also require payroll reports to reflect the actual activity of each employee. We found instances where department personnel did not comply with these requirements.

Agricultural Chemical Groundwater Protection Account

The Agricultural Chemical Groundwater Protection (ACGP) account was charged a certain percentage of personal services regardless of the actual amount of time staff spent on projects related to the account. A division employee said he was charging the account to ensure all the funds were expended. It was his understanding that state money should be spent before federal money because unused state money reverts and unused federal money carries forward.

Division personnel summarize total hours spent on various activities on division activity reports. According to division activity reports for July to December 1993, division personnel spent 151 hours on ACGP activities. The division uses biweekly time sheets to charge personal services to various accounts. Based on biweekly time sheets for the same period, 250 hours were charged to the ACGP account. The 99 hour overcharge should have been charged to the accounts benefitting from the actual activities of division staff.

After we discussed this issue with the department's internal auditor, he issued a memorandum to division administrators, bureau chiefs, and program managers summarizing the federal requirements regarding employee time reporting. The memorandum should have also referred to department policy.

Water Quality Division Payroll Adjustment

We reviewed an accounting document that moved $27,600 of payroll charges from the accounts originally charged to the accounts that should have been charged. A Centralized Services Division employee said the corrections occurred after she noticed Water Quality Division payroll charges were very consistent between pay periods although staff activities varied. During a management meeting with Water Quality personnel, she told them charges should be based on where they spent their time and not on where they were budgeted. Subsequently, five Water Quality Division personnel indicated their activities were not accurately reflected on their time sheets. These five employees requested corrections for 1,193 hours of time charged incorrectly from July 1992 to March 1993.

During our follow-up in 1995, we found the department had not implemented this recommendation. Effective July 1, 1995, the department was eliminated and its functions transferred to the newly created Departments of Public Health and Human Services (DPHHS) and Environmental Quality (DEQ). The department's health functions were allocated to DPHHS and its environmental functions were allocated to DEQ. Since this recommendation was not implemented, we asked DPHHS and DEQ to respond.

Recommendation #4-2

We recommend the department ensure employees charge their time to the accounts benefitting from their activities.

Agency Response #4-2
DEQ: Concur.
DPHHS: The Department of Public Health and Human Services is in the process of developing and implementing a consolidated Accounting structure and Cost Allocation Plan for the new agency. The consolidation process will ensure appropriate allocation of employee time to programs benefiting from their efforts.

4-3 Subrecipient Monitoring Procedures

The federal Single Audit Act of 1984 and Office of Management and Budget (OMB) Circular A-128 require the department to determine whether those entities annually receiving subgrants of at least $25,000 in federal financial assistance during a fiscal year comply with applicable federal requirements. To ensure subrecipients are in compliance, the department should obtain and review subrecipient audit reports and determine if the reports comply with the Single Audit Act of 1984 and OMB Circular A-128. The department is also responsible for resolving any findings and questioned costs related to the funds it subgrants. Failure to adequately monitor subrecipient contracts results in a lack of assurance that such contracts are properly administered. Noncompliance could result in the loss of future federal funding.

We noted concerns with the department's subrecipient monitoring procedures during the last two audits. During this audit, we found the department has made progress in complying with subrecipient monitoring requirements, but could further improve its procedures.

We distributed questionnaires to program personnel responsible for managing 26 of the department's nonmajor (less than $3,000,000) federal financial assistance programs. In their responses to the questionnaires, seven program managers indicated fourteen of the programs have subrecipients which are subject to the federal monitoring requirements. These subrecipients are primarily counties, cities, water and sewer districts, universities, not-for-profit organizations, and for-profit entities.

Department policy states the primary responsibility for subrecipient monitoring rests with the individual program managers and their staff. The program manager responses on the questionnaires indicate they are not familiar with and do not comply with this policy. Four program managers thought the department's internal auditor and/or contract requirements ensure the department obtains the required audits and resolves any audit findings. Two managers indicated audits are performed or reviewed by the Department of Commerce's Local Government Services Bureau (LGSB). Only one of the managers acknowledged his responsibility to resolve audit findings.

The department's subrecipient monitoring policy also states the Support Services Bureau (SSB) "is responsible for the review of all audit reports from sub-recipients as required by the Federal Single Audit Act of 1984 and related Office of Management and Budget Circulars. . . . The SSB will monitor counties to ensure those audit reports are received in a timely manner. The contract liaisons are responsible to ensure that non-profit sub-recipients' audit reports are received in a timely manner." The policy does not specifically address local governments, other than counties, or for-profit entities.

To comply with this policy, the department entered into an agreement in May 1993 with the LGSB. Through this agreement, the LGSB summarized for the department the findings and

questioned costs identified in county audit reports. In March 1994, we determined the department had no reliable procedure to ensure audit reports were obtained and reviewed for subrecipients that were not county governments. As a result, the department was not complying with federal subrecipient monitoring requirements. As we recommended, the department revised its agreement with the LGSB to include those other types of local governments with which the department has current contracts, such as cities and water and sewer districts.

All contracts for federal assistance subawards are included in the department's contract database. According to department personnel, minor changes to the database would allow the department to obtain listings of all subrecipients requiring audits. This would allow the department to properly identify those subrecipients for which the LGSB provides no assurance. The department should improve its subrecipient monitoring procedures and clarify those procedures in its Policy and Procedures Manual to ensure compliance with federal subrecipient monitoring requirements.

During our follow-up in 1995, we found the department had partially implemented this recommendation. Effective July 1, 1995, the department was eliminated and its functions transferred to the newly created Departments of Public Health and Human Services (DPHHS) and Environmental Quality (DEQ). The department's health functions were allocated to DPHHS and its environmental functions were allocated to DEQ. Since this recommendation was not fully implemented, we asked DPHHS and DEQ to respond.

Recommendation #4-3

We recommend the department:

A. Improve its subrecipient monitoring procedures to include all subrecipients receiving at least $25,000 in federal assistance annually.

B. Clarify the subrecipient monitoring procedures in its Policy and Procedures Manual.

Agency Response #4-3
DEQ: Concur.
DPHHS: Except for Department of Commerce desk reviews, all other A-128 and A-133 audits are desk reviewed by the DPHHS Audit Services section which is part of the Audit and Program Compliance Bureau of the Division of Quality Assurance.

Findings from the desk reviews are communicated to the DPHHS Division level for corrective action. This procedure is consistent with the long standing policies and procedures of the old Department of SRS and have been found acceptable by previous legislative audits.

4-4 Drug-Free Workplace Policy

In accordance with federal requirements, all grantees receiving federal financial assistance must certify that they will provide a drug-free workplace. To make this certification, the grantee must:

(a) Publish a policy notifying employees that the unlawful manufacture, distribution, dispensing, possession or use of a controlled substance is prohibited in the grantee's workplace and specifying the actions that will be taken against employees for violation of such prohibition.

(b) Establish an ongoing drug-free awareness program for employees.

(c) Require each employee working on a grant be given a copy of the policy in (a) above.

(d) Notify the employee in the policy in (a) above that, as a condition of employment, the employee must comply with the policy and notify the grantee employer in writing of any criminal drug statute conviction for a violation occurring in the workplace within five working days after such conviction.

When we asked for a copy of the department's current drug-free workplace policy during this audit, we were given a policy signed by the department's director on April 4, 1989. This policy did not comply with requirements (c) and (d) above. During the prior audit, the department gave us a drug-free workplace policy signed by the director on January 7, 1991 which met federal requirements. When we asked for a copy of this policy, department personnel could not locate it. They did, however, find a copy of the memorandum distributed with the 1989 policy that required anyone working under a federal grant to receive, sign, and date a copy of the policy statement and the memorandum. Neither the 1989 nor the 1991 policy was in the department's Policy and Procedures Manual. During our audit period, the department did not have orientation procedures to ensure new employees read and sign a drug-free workplace policy statement. As a result, employees hired after April 1989, working under federal grants, may not have read or signed such a policy.

After discussing this issue with department personnel, the department revised its drug-free workplace policy to comply with federal requirements. The revised policy requires all current employees read the policy and sign a certification that they have done so. It also requires new employees read the policy and sign the certification statement during orientation procedures. The policy was prepared for distribution to holders of the department's Policy and Procedures Manual. During our follow-up in 1995, we found the department has implemented this recommendation.

Recommendation #4-4

We recommend the department continue implementation of its drug-free workplace policy in compliance with federal regulations.

Agency Response #4-4
DEQ: Concur.
DPHHS: The Department of Public Health and Human Services is continuing the drug-free work place policies and enforcement procedures that have been found acceptable by previous legislative audits.

4-5 Computer Security

Policies and Procedures

In our prior audit, we recommended the department implement policies and procedures to ensure security over computer data and information resources in accordance with state law. Section 2-15-114, MCA, specifies each department head is responsible for an adequate level of security over data and information technology resources within the department and implementing appropriate cost-effective safeguards to reduce, eliminate, or recover from identified threats to data. The statute also requires department officials ensure internal evaluations of the security program for data and information technology resources are conducted.

Department personnel drafted internal security policies and procedures in November 1992. In January 1994, Information Services Bureau personnel indicated internal security policies and procedures were with the director for review and comment. In August 1994, bureau personnel stated they had received the director's comments and were revising the draft policies and procedures.

Employee Access

One aspect of internal security is determining who should have access to which programs and data. Another aspect is regularly reviewing access rights to determine if they are appropriate, or if they should be changed or suspended.

We performed testing to determine if the Information Services Bureau suspended computer access in a timely manner for people who terminated employment with the department. We found a personnel officer's access was suspended four months after her retirement date. As of August 31, 1994, the bureau had not suspended the logon IDs of five of thirteen people who terminated employment with the department between May 27 and July 22, 1994. Bureau personnel indicated they would have identified and suspended these IDs on September 2, 1994, through their normal procedures.

While reviewing data related to these five logon IDs, bureau personnel noted none of the IDs had been used to access the department's computer system. By allowing access rights to employees who do not need access to perform their job duties and by not suspending logon IDs upon employee termination, the department increases its risk that unauthorized persons will access sensitive information or make inappropriate changes to the programs and data to which they have access.

During both the current and prior audits, the department security officer indicated that program managers did not notify him when staff terminated employment with the department. In the prior audit, we recommended the department develop policies and procedures for notifying the security officer and suspending logon IDs upon personnel termination. Because policies and procedures had not been finalized, the bureau developed a backup system to ensure the security officer suspended logon IDs of all employees who terminated. Under the backup system, the security officer is supposed to review the personnel data base at the end of each two week pay period for modifications relating to the previous pay period. Using this process, up to four weeks could elapse before the bureau suspended logon IDs of terminated employees. The security officer could not explain why three to four months elapsed before logon IDs were suspended.

The department needs to implement internal computer security policies and procedures in order to clarify the responsibilities of department personnel regarding employee access rights. Also, the department should consider if there are more efficient and effective procedures than those currently used to ensure logon IDs are suspended in a timely manner.

During our follow-up in 1995, we found the department had partially implemented this recommendation by adopting a computer security policy in April 1995 for the environmental functions. Effective July 1, 1995, the department was eliminated and its functions transferred to the newly created Departments of Public Health and Human Services (DPHHS) and Environmental Quality (DEQ). The department's health functions were allocated to DPHHS and its environmental functions were allocated to DEQ. Since this recommendation was not fully implemented, we asked DPHHS and DEQ to respond.

Recommendation #4-5

We recommend the department adopt policies and implement procedures to ensure security over computer data and information resources in accordance with state law.

Agency Response #4-5
DEQ: Concur.
DPHHS: The Department of Public Health and Human Services has adopted security procedures that were in place in SRS; and these procedures will apply to all DPHHS computer systems. These procedures have repeatedly passed legislative audits of SRS in previous years.

Department of Public Health & Human Services

Several state agencies were reorganized effective July 1, 1995. The Department of Public Health and Human Services (PHHS) was created from the following former state agencies: the Department of Family Services, the Department of Social and Rehabilitation Services, the health functions of the Department of Health and Environmental Sciences, and the human services functions of the Department of Corrections and Human Services. The issues relating to these former state agencies that pertain solely to PHHS follow, except for two issues from the former Department of Health and Environmental Sciences, which begin on page D-129. Issues from these former state agencies that affect more than one new agency are under the former agency's name; Department of Health and Environmental Sciences issues start on page D-17 and Department of Corrections and Human Services issues start on page D-7.

5-1 Managing Federal Cash Reimbursements

State law requires state agencies to expend non-General Fund money before expending General Fund money whenever possible. Federal regulations require limiting the draw of federal funds to the actual time of disbursement of those funds. Effective cash management procedures draw federal funds as close to the time of expenditure as possible so as to satisfy both state and federal criteria. We reviewed the department's process of requesting federal funds and determined the requests should be more timely to ensure proper cash flow. The following are examples of department procedures regarding the timeliness of requests for federal funds.

- During the audit period, department procedure was to request Foster Care Title IV-E funds, Catalog of Federal Domestic Assistance (CFDA) #93.658, on a monthly basis. However, foster care benefits are paid weekly. The Cash Management Improvement Act (CMIA) agreement between the state and the U.S. Department of Treasury requires the department to request Title IV-E funds in accordance with the clearance pattern specified in the agreement. This pattern requires foster care funds be drawn on a weekly basis with direct and indirect administrative costs drawn biweekly. Monthly Title IV-E draws approximate $750,000. As a result of drawing funds monthly rather than weekly, the General Fund lost interest earnings of an estimated $8,750 each fiscal year. Department personnel were not aware of their responsibilities under the CMIA agreement.

- The department receives a quarterly grant award for its Child Welfare Services (CWS) Title IV-B funds (CFDA #93.645). The department draws one-third of the award each month. However, the CWS program expenditures indicate the department could draw the entire quarterly award at the end of the first month, based on amounts disbursed. The yearly Title IV-B allotment to the department caps reimbursement at $1.2 million, and the expenditures qualifying for the CWS program approximate $3.5 million. By not drawing funds based on amounts disbursed, the General Fund lost an estimated $4,950 of interest earnings each fiscal year.

- The department bills for its Medicaid Title XIX (CFDA #93.778) and Emergency Foster Care Title IV-A (CFDA #93.560) reimbursement based on quarterly expenditures.

A June 29, 1995 cash analysis, created by department personnel, indicated the department had not received its Title XIX and IV-A reimbursement in excess of $832,000, for the quarter ended March 31, 1995. In addition, reimbursement for expenditures for the quarter ended June 30, 1995, in excess of $707,000, was not requested until mid-August. A department official said neither reimbursement was received until early November 1995. Department procedure to wait and request reimbursement based on quarterly expenditures cost the General Fund an estimated $38,736 in lost interest earnings each fiscal year of the audit period. Department personnel indicate that since these funds pass through the Department of Social and Rehabilitation Services, there is a lag time of about three months before the department receives the cash. However based on our review, significant time elapses before the department requests the funds.

We calculated that the procedures noted above cost the state General Fund $104,872 during the biennium. Slow billing of federal program costs also caused the department to obtain significant inter-entity loans from the General Fund. In June 1995, the department requested a loan of $1,650,000 to meet its cash flow needs. The department should improve the timeliness of its requests for federal reimbursement to reduce interest lost to the General Fund and operating loans requested of the General Fund. Under the CMIA agreement, this can be done by documenting a payout pattern for grant funds and requesting federal reimbursements according to the payment pattern.

Recommendation #5-1

We recommend PHHS establish procedures to ensure timely request of federal funds as allowed by the Cash Management Improvement Act.

Agency Response #5-1

Concur: The department is currently requesting federal funds as allowed by the Cash Management Improvement Act Agreement.

5-2 Cost Distribution

Costs incurred in connection with programs sponsored by the federal government are allowable charges against federal grants and contracts. Cost allocation plans are a means by which such costs are identified, accumulated and distributed to grants and contracts. These costs may include direct program costs as well as indirect costs not readily identified with one grant. During the current audit, we found the department applied cost allocation procedures inconsistently. We noted the following concerns with distribution of costs to various state and federal programs.

Inconsistent Use of Plan

The department did not charge all federal programs based on its cost allocation plan in fiscal year 1993-94. The department billed the federal government for costs allocated to Foster Care Title IV-E (CFDA #93.658) and Child Welfare Services Title IV-B (CFDA #93.645), using the cost allocation plan. The department's other federal programs were billed for direct charges identified on the statewide budgeting and accounting system (SBAS).

When the department does not bill a program from the cost allocation plan, the department cannot verify that the amount billed includes all program costs. For example, the cost allocation plan for fiscal year 1993-94 identified $334,757 in Title XIX (CFDA #93.778) costs, but the department only billed $311,029, the direct costs identified on SBAS. As a result, the department did not recover $23,728 in Title XIX funds. These costs can and should be recovered.

Department personnel indicated that the cost allocation plan was never intended to be used to bill all federal programs. It was intended to be used to bill just Titles IV-E and IV-A. However, federal guidance states that directly billing select programs and allocating residual amounts through cost allocation to the remaining programs is not acceptable and results in inequitable costing. Inconsistent application of the cost plan leaves the department no way of ensuring all valid costs are recovered. In addition, limits on indirect cost recoveries for some programs may result in excess recoveries from other programs.

Inconsistent Costing Practices

Federal regulations state each item of cost should be treated consistently either as a direct or an indirect charge. Federal guidelines also state that inconsistent treatment results in disallowed claims. During fiscal year 1993-94, the department applied an indirect cost rate to determine the amount to claim for federal reimbursement. Included in this rate, in accordance with state policy, is a portion of the statewide cost allocation plan (SWCAP). In addition, the department charged $58,406 of SWCAP directly to the Title IV-E Foster Care (CFDA #93.658) program.

The department treated SWCAP charges as both an indirect cost, by inclusion in the rate, and as a direct charge to Title IV-E. Therefore, we question the direct charge of $58,046 to the Foster Care Title IV-E program in fiscal year 1993-94. We discussed this issue in the prior audit report. The department recognized the inconsistency and did not directly charge SWCAP costs to any program in fiscal year 1994-95.

Duplicate Billings

For the first 18 months of the audit period, the department allocated foster care travel and administrative expenses to Titles XIX (CFDA #93.778) and IV-A (CFDA #93.560) grants. The department also included these same expenditures in its Title IV-E administration costs. Office of Management and Budget (OMB) Circular A-87 defines an allowable charge as one from which the grant receives a direct benefit. The foster care costs were unnecessary and unreasonable charges to the Titles XIX and IV-A grants since the medicaid and daycare programs did not benefit from the expense. Therefore, we question charges totaling $218 and $1,092, respectively, in fiscal year 1993-94. Department personnel agreed that they had mistakenly charged federal sources twice for the same foster care expenditures. The charges were corrected in fiscal year 1994-95.

Errors in Allocation Base

When allocating fiscal year 1994-95 expenditures, the department did not allocate $11,202 in allowable costs to federal programs. These administrative costs should have been assigned to the administrative cost pool before the pool was allocated to the federal programs.

Summary

The four situations discussed in these sections resulted from inconsistent application of federal cost principles. Department accounting personnel were not aware of the basic federal requirement to consistently apply allocation procedures and cost principles. Delays in submitting plans and untimely response to subsequent federal questions also contributed to errors in both fiscal years. The Department of Public Health and Human Services (PHHS) will submit a new cost allocation plan for PHHS which will include the federal programs of the Family Services Program Division. The PHHS plan will require federal approval and consistent application to all PHHS programs.

Recommendation #5-2

We recommend PHHS implement a cost allocation plan with consistent application of federal cost principles.

Agency Response #5-2

Concur: A new plan for charging all of PHHS federal and state programs will be implemented by June 30, 1996. The questioned costs of $58,406 for the duplicate billing of the SWCAP costs to the Title IV-E program were removed from the IV-E quarterly report of December 31, 1995. The questioned costs of $218 for the Title XIX program and $1,092 for the Title IV-A program which were the result of an error in recording costs on the cost allocation plan were adjusted on the quarterly reports of June 30, 1995. This removed the questioned costs from the two programs.

5-3 Special Revenue Account Fund Balance

The department maintains a federal special revenue account to record the activity related to its federal programs. Because revenue is recognized for the federal programs as the expenditures are incurred, the balance in this account should be zero at fiscal year-end. At fiscal year-end 1994-95, this account had a negative fund balance of almost one million dollars. The largest programs recorded in this account include Foster Care (CFDA #93.560, 93.645, 93.658, 93.674) and the Aging program (CFDA #93.044, 93.045). These federal funds are provided by the U.S. Department of Health and Human Services. As seen below, this account has not had a zero fund balance since the creation of the department.

Fund Balance Analysis

	Ending Fund Balance
FY 1987-88	$ 200,237
FY 1988-89	1,773,935
FY 1989-90	382,947
FY 1990-91	1,126,920
FY 1991-92	3,000,325
FY 1992-93	3,413,679
FY 1993-94	2,741,177
FY 1994-95	(920,881)

Source: Compiled by the Legislative Audit Division

In the previous audit of the department, we recommended the department ensure its special revenue fund accounts were reconciled and the fund balances were correct at the end of the fiscal year. The department concurred and said monthly accounting reports would be reviewed and reconciliations provided, where required. As of September 26, 1995, the account had not been reconciled.

We performed a fund balance analysis and identified the following concerns which affect the fund balance in this account.

- Revenue accruals are recorded based on an estimate of what the expenditure accrual will be. The expenditure accrual is based on actual expenditures. Since the revenue accrual does not reflect the improved data used to accrue expenditures, the revenue and expenditure accruals are not consistent. For this reason, the revenue accrual for foster care was understated by $1.8 million for fiscal year 1994-95.

- The department expended $1.8 million from appropriations in fiscal year 1994-95 in the federal Special Revenue Fund for costs not associated with or billed to federal assistance programs. This resulted in a reduction of $1.8 million in the Special Revenue Fund balance.

- The department collects money from parents and other third parties to pay for the costs of children in foster care. In fiscal year 1993-94, the department received more third party contributions than it had authority to spend; therefore, the department recorded the excess contributions in the federal account. The corresponding expenditures were recorded in the General Fund. This resulted in an overstatement of the Special Revenue Fund balance by $390,708.

- The department did not accrue revenue in the federal Special Revenue Fund for certain computer system development costs. As a result, revenue and fund balance were understated by $672,501 for fiscal year 1993-94 in the Special Revenue Fund.

- In fiscal year 1991-92, the department accrued $1.9 million of revenue for the Developmentally Disabled Targeted Case Management program. The recorded expenditures did not support the entire revenue accrual. By fiscal year 1994-95, there was still $627,123 remaining on the revenue accrual although the program no longer existed at the department. The accruals were written off at fiscal year-end.

In the previous three audits, we identified significant accounting errors which contributed to the inappropriate fund balance in the federal special revenue account. This report discusses procedural concerns that contribute to the inaccuracy of the ending fund balance. Since the department is unable to reconcile the history of this account balance, it is not practical for us to determine the dollar effect on revenues, expenditures, assets, or liabilities recorded in the accounting records. The department should review overall accrual procedures and their impact on the accuracy of the ending fund balance.

Recommendation #5-3

We recommend PHHS:

A. Ensure the federal Special Revenue Fund account is reconciled and balances are correct at the end of the fiscal year.

B. Review expenditure and revenue accrual procedures for consistency and accuracy.

Agency Response #5-3

A. Concur: With the reorganization of programs within PHHS new accounting entities will be utilized to track federal programs. In this process, the current accounting entity will be reconciled and closed out by June 30, 1997.

B. Concur: New procedures will be implemented for year end accruing of expenditures and revenues to ensure that they match at fiscal year end.

5-4 Improper Federal Charges

The Department of Social and Rehabilitation Services (SRS) contracted with a private firm to develop the Montana Automated Child Care System. SRS received authorization to pay for the system with federal funds. The department agreed to pay half the state match and supply additional funding from the Child Care Block Grant (CFDA #93.575).

When SRS billed the department in June 1994, department personnel recorded the expenditures as IV-E Foster Care (CFDA #93.658) system development. In the following fiscal year, the department adjusted its original entry by reducing IV-E Foster Care costs and the General Fund. The department then charged the whole cost to the Child Care Block Grant. As a result, the department matched a federal grant with another federal grant, a violation of federal regulations. The department overcharged two federal programs as shown below. We question these costs.

IV-E Foster Care	CFDA #93.658	$28,823
Child Care Block Grant	CFDA #93.575	$36,199

The document used by SRS to bill the department clearly showed the amount which should have been charged to the General Fund, an amount which we verified to be half of the required match.

Recommendation #5-4

We recommend PHHS ensure:

A. Federal assistance is matched with state funds as required, and

B. Expenditures are charged to the correct federal program.

Agency Response #5-4

A. Concur.

B. Concur.

5-5 Federal Reporting

Federal regulations require accurate reports. We reviewed various quarterly reports for federal programs and verified support for amounts presented on these reports and the department's Schedule of Federal Financial Assistance (SFFA). The following paragraphs discuss errors identified in the review.

-- The department records foster care expenditures from voluntary or nonvoluntary placements as required by federal regulations based on the eligibility codes in the foster care database (CFDA #93.658). The department contracts with various Indian tribes throughout Montana to provide certain foster care services for wards of the tribes. To track these expenditures, the department moves the expenditures from the voluntary and nonvoluntary accounts to tribal accounts. By doing this the department loses the ability to identify these expenditures as voluntary or nonvoluntary. The department classifies tribal expenditures as voluntary

expenditures on the federal report. Based on review of these costs, 90 percent of the tribal children are nonvoluntary placement. The department incorrectly reports approximately $500,000 of costs as voluntary placement instead of nonvoluntary placement each fiscal year. Personnel stated the current method is the easiest for bookkeeping purposes. Personnel further stated the process will be refined in fiscal year 1995-96. The department should set up two accounts for each tribe and move the costs to the appropriate account based on the type of placement.

-- Federal regulations state costs incurred prior to the effective date of the grant agreement are allowable if specifically provided for in the grant agreement. The department reported costs incurred in development of its Child Adult Protective System (CAPS) prior to October 1, 1993, the date of approval of federal financial assistance for the project. The agreement did not specifically approve any pre-agreement costs. Therefore, we question $12,120 in charges to IV-E Foster Care (CFDA #93.658) under the CAPS agreement.

-- When the department reported IV-E Foster Care (CFDA #93.658) costs for the quarter ended June 30, 1995, personnel transposed one expenditure amount and omitted certain training costs. As a result, the department did not report and bill $73,241 of valid federal costs. Department personnel attributed the mistakes to human error and said the amounts would be billed in the quarter ended September 30, 1995.

-- We found errors while tying the SFFA to the quarterly Financial Status Reports for Title III Aging (CFDA #93.045). The quarterly reports showed $283,361 more expenditures for the year ended June 30, 1994. Aging program personnel, who prepare the quarterly reports, attributed the difference to using the wrong month's financial information to complete the reports and including amounts in inappropriate categories. Personnel said the quarterly reports sometimes are completed before fiscal personnel provide a cost worksheet summarizing the costs for the quarter. These errors did not generate questioned costs.

-- The department uses a random moment time study to determine the amounts billed to various federal programs. The study determines how much time field office employees spend on each program. For the quarter ended March 31, 1994, department personnel made an error in the amounts

billed for Title IV-A (CFDA #93.560) and Title XIX (CFDA #93.778). Although the department added the amounts missed to the next quarter's billing, the costs were allocated by the random moment time study results for the following quarter. As a result, the department underbilled Title IV-A by $8,305 and overbilled Title XIX by $457.

-- The department established a training account with the incorrect match between federal and state dollars. As a result, IV-E Foster Care (CFDA 93.658) and the General Fund were underbilled and overcharged by $1,226, respectively.

Federal reporting for family services programs entails detailed allocation procedures such as random moment time study of employee effort, various program match requirements, allocation of indirect cost pools, and federal participation rates which vary each federal fiscal year. Improved reporting for family services programs could be attained by using a checklist for compiling reports from cost allocation spreadsheets and for correcting various types of errors.

Recommendation #5-5

We recommend PHHS improve consistency and accuracy of federal reporting for family services programs.

Agency Response #5-5

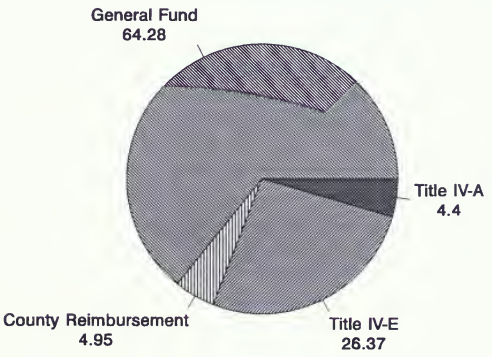
Concur: The development of the new cost allocation process for PHHS will greatly enhance the accuracy of federal reporting by more clearly identifying expenditures by federal program. The questioned costs will be resolved.

Foster Care

The department administers the foster care program. Foster care is the full-time care of youth in a residential setting for purposes of providing food, shelter, security and safety, guidance, direction, and if necessary, treatment of youth who are removed from or are without care and supervision of their parents or guardian.

Foster care is funded through the state General Fund, county reimbursement, and federal assistance programs. According to the department's accounting records, the department spent $18 million to operate the foster care program in fiscal year 1994-95. The source of funding is as follows:

FY 1995 Foster Care Funding
Percent by Source



Source: Compiled by the Legislative Audit Division.

During our audit we noted the department could improve procedures related to determining eligibility for foster care, entering proper eligibility codes into the computer systems, and billing the federal government for documented costs.

5-6 Procedures for Determining Title IV-E Foster Care Eligibility

The federal Title IV-E foster care program (CFDA #93.658) provides financial support for foster care services and related program administration. To be eligible for Title IV-E funding, the foster care child must have been removed from the home by the means of a judicial determination or voluntary placement agreement. In addition, the child must be eligible for Aid to Families with Dependent Children (AFDC) benefits. The judicial determination must be made within six months of the child's removal from the home. The judicial determination must include a statement that reasonable efforts were made to prevent removal, and that removal is in the best interest of the child.

Eligibility Determination

We tested case file documentation for a sample of 37 children in foster care during fiscal years 1993-94 and 1994-95 to determine if payments were made on behalf of eligible clients. We noted the following instances where the department made payments on behalf of ineligible children.

- In three instances the children were not removed from their families' AFDC grants. The child cannot be eligible for federal foster care benefits and receive benefits as a member of a family unit.
- In one instance, the child was not eligible for AFDC.
- In two instances, the court order did not include the reasonable efforts language.
- In two instances, where the children were in and out of foster care, the department did not obtain new court orders with the required language for each time the children returned to foster care.

In another instance, the date of release from department custody was the child's 19th birthday when it should have been the 18th birthday. This could result in payments on behalf of the child after his 18th birthday.

As a result of the problems identified, we question Title IV-E costs of $7,211 and $3,964 in fiscal years 1993-94 and 1994-95, respectively.

According to department personnel, the issues noted will be addressed by a new computer system. Department personnel project the system conversion will start November 3, 1995, with all county offices being on the system by July 1, 1996.

A computer system changes the manner in which information is processed. However, it will not ensure payments are made for eligible children. For example, the computer system is designed to have personnel in the field enter the date of all court orders, and enter whether the court documents contain the required language. The computer system is not designed to verify that this language is in the first court order obtained after the child's removal from his home as required by federal regulations. The department needs to include monitoring controls of information entered to ensure payments are made on behalf of eligible clients.

Recommendation #5-6

We recommend PHHS implement a control system to ensure Title IV-E foster care payments are made on behalf of eligible clients in accordance with federal regulations.

Agency Response #5-6

Concur: The implementation of the CAPS system will greatly enhance the social workers abilities to determine correctly the initial client funding eligibility and any subsequent redetermination required by federal regulations. All counties are scheduled to be converted to the CAPS system by June 30, 1996. The cases involved with the questioned costs to the Title IV-E program of $7,211 for FY 1993-1994 and $3,964 for FY 1994-1995 will be reviewed and appropriate adjustments will be made on the IV-E quarterly report of March 31, 1996.

5-7 Foster Care Database

The department tracks foster care payments in the foster care database. An eligibility code is assigned to each expenditure entered in the system. The database uses the eligibility code to identify the funding source for the expenditures. The department updates the Statewide Budgeting and Accounting System (SBAS) weekly with financial activity recorded on the database. State warrants are then generated for payments to foster care providers. The department uses the information recorded on SBAS to bill the federal government and counties for their share of the foster care payments. The following sections discuss concerns we have regarding the accuracy of information on the database and SBAS.

Matching Eligibility to Funding Sources

In our review of 557 expenditures charged on behalf of 37 children in foster care during fiscal years 1993-94 and 1994-95, we identified the following instances where the incorrect eligibility code was used.

- In one instance, the child's foster care was charged to a federal program, but should have been charged to a state program. The federal questioned costs associated with this child are included in issue 5-8.
- In eight instances the child's foster care was recorded as state foster care, but should have been charged to a federal program.
- In one instance the child's foster care commitment was coded as voluntary, rather than court-ordered. This has no fiscal impact, but does impact federal census reporting.

We identified concerns with foster care payment funding sources in the past two audits. The department concurred with our recommendations regarding these issues. The department hired a financial specialist for each region to implement these recommendations. The financial specialists review the files to ensure the eligibility codes used are proper. Seven of the eight instances identified above, where a child's funding source could have been federal, were errors the financial specialists identified. The department did not bill the federal government for seven months after the financial specialists finished their work, delaying the recovery of $27,311 of federal funds.

Department personnel said the department relies on field personnel to provide the appropriate eligibility code. Sometimes field personnel use a form with an old eligibility code on it, without realizing the child should be under a new funding source. Department personnel expect the implementation of a new computer system, will prevent these problems. The department should consider controls, such as periodic file reviews by financial specialists, to ensure payments are made on behalf of eligible children.

Recommendation #5-7

We recommend PHHS establish procedures to ensure the funding source charged is correct based on a child's eligibility.

Agency Response #5-7

Concur: As noted in the audit, the department took the initiative to hire financial specialists to review files for correct eligibility. This effort was very successful as the department recovered over $565,000 of additional federal funds for fiscal years 1992 through 1995. The implementation of CAPS will greatly enhance the financial specialists efforts in reviewing client eligibility.

5-8 Foster Care Corrections

Based on records provided by the department, financial specialists identified $296,404 of charges made to the federal foster care program incorrectly. A portion of these charges were paid with federal funds. Since the charges were not allowable costs of the federal program, federal funds should not have been used to pay them. Applying the appropriate federal share to these expenditures we question the following amounts:

Grant	CFDA #	Fiscal Year 1993-94	Fiscal Year 1994-95	Total
Title IV-E	93.658	128,056	37,441	165,497
Title IV-A	93.560	10,121	21,550	31,671

The department's financial specialists also identified $861,476 which should have been charged to the federal foster care program but was paid solely with General Fund money. With the required state match subtracted from the total, the department should have recovered an additional $565,682. In total, the adjustment from the financial specialist file review could result in a net benefit to the state General Fund of $368,514.

Department accounting personnel stated that adjustments between state and federal funding sources have offset in past periods and have been immaterial, so the department has not recorded adjustments to SBAS. After the department hired financial specialists for each region, the department identified more errors on the database, but still did not adjust SBAS. After we brought this issue to the attention of the department, department personnel adjusted SBAS and requested additional money from the federal government.

Recommendation #5-8

We recommend PHHS:

A. Record foster care adjustments on SBAS.

B. Recover $565,682 of federal funds for eligible foster care services.

Agency Response #5-8

A. Concur: The adjustments were made on SBAS and the proper federal programs were billed on quarterly reports for the period ending June 30, 1995.

B. Concur: The $565,682 has been recovered as part of the above adjustments.

5-9 Uncollected Medicaid Drug Rebates

Background

We audited the Medicaid Drug Rebate Program (CFDA #93.778) as part of a joint audit under a Partnership Plan between our office and the Inspector General of the U.S. Department of Health and Human Services.

The Omnibus Budget Reconciliation Act of 1990 (OBRA 90) established the Medicaid prescription drug rebate program. The purpose of the drug rebate program is to ensure Medicaid is charged a fair price for prescription drugs. It is a common practice among drug manufacturers to give discounts to large purchasers of prescription drugs, such as hospitals. The Medicaid programs throughout the United States constitute a large purchaser of prescription drugs. Before OBRA 90, Medicaid programs paid higher prices for prescription drugs. The federal law requires a drug manufacturer to enter into rebate agreements with the federal government for states to receive cash rebates for the cost of drugs dispensed to Medicaid recipients. The law went into effect January 1, 1991.

Past Due Drug Rebates

The department maintains a computer system that lists drug manufacturers who owe rebates to the state. However, the system does not separately identify amounts in dispute or past due. In February 1995, there were approximately $2.2 million in disputed or unresolved rebates receivable on the department's records, some dating back as far as 1991. As of February 1995, the department had not made significant progress in collecting these amounts.

According to department personnel, the department has not collected the disputed rebates because the manufacturers do not trust the data provided by the department. In April 1995, only one department employee was assigned to collect the rebates and resolve the disputes. According to the employee, the accuracy of some of the prescription drug data was questioned. The employee said the federal Health Care Finance Administration (HCFA)

frequently sends the department adjustments to rebate amounts owed by manufactures which appeared to be wrong. The department personnel indicated it was difficult and time consuming to manually track and reconcile these HCFA adjustments.

Since we brought this issue to the department's attention, department personnel were assigned to verify the accuracy of the data used in calculating the ten largest disputed rebate amounts. According to a department official, although the review resulted in some adjustments to the disputed amounts, the data was mostly accurate. Department officials said they resubmitted the disputed claims for reimbursement to drug manufacturers in the fall of 1995. The replies from the manufacturers are being processed by the department.

Interest on Past Due Drug Rebates

The drug manufacturers are also required to pay interest, at the current U.S. Treasury bill interest rate, to the states on unpaid rebate amounts starting 38 days after the bills are mailed. HCFA provides the department with the weekly treasury bill interest rate for use in calculating interest due. However, department personnel stated they do not charge interest on the disputed rebates receivable because the department's system does not calculate the amount of interest due. Department personnel working in Medicaid also indicated they do not know how to record the receipt of interest on the system since there is not a separate line for interest.

As of October 15, 1995, the department had been unable to collect approximately $1,225,600 in disputed accounts receivable plus $116,000 in estimated interest. The state's General Fund should receive approximately $402,500 if all of the unresolved and disputed accounts receivable are collected.

Recommendation #5-9

We recommend the department:

A. Resolve disputed drug rebate amounts in a timely manner.

B. Establish procedures to charge interest on past due drug rebates as allowed by federal regulations.

Agency Response #5-9

A. Concur:

The Medicaid program has averaged a collection rate of more than 90% for each quarter. The current uncollected rebate balance is $1,038,192. This amount represents current unpaid invoice amounts, disputes, unrecorded HCFA Prior Period Adjustments (PPA), unrecorded utilization adjustments and unrecorded manual adjustments. The program does not expect to collect the entire outstanding balance. This is due to the unrecorded adjustments and the expectation to "write off" amounts which have been incorrectly invoiced to manufacturers.

The Medicaid program has implemented the following programs to assist with the collection of rebates from pharmaceutical manufacturers:

1. A pharmacy Point of Sale system was implemented on 9/1/94 that verifies drug termination dates, drug expiration dates and the validity of the National Drug Codes (NDC).

2. Internal audits were conducted by the department's audit unit on 8/1/94. These audits focused on the top ten disputing manufacturers. The audits help demonstrate the accuracy of Montana Medicaid pharmacy data.

3. External organizations were sent pharmacy paid claims data the fall of 1995. These organizations work with selected pharmaceutical manufacturers to help settle disputes. There is no charge to the state for this service.

4. Internal settlement of rebate disputes.

5. Program modifications were requested in 1995 to allow claim adjustments to be included in invoice detail.

6. Developed an internal tracking system to monitor HCFA PPA's to avoid duplicate billing of PPA's.

B. Concur:

The rebate system was modified in the spring of 1995 to allow interest received from manufacturers to be recorded and accounted for as a separate line item. Manufacturers are responsible for calculating interest charges and states are responsible for tracking it.

The Department has surveyed all 50 state Medicaid pharmacy programs to determine which states have systematic procedures for calculating, verifying and imposing interest on past due rebates. The rebate system for these states will be reviewed to determine the possibility of incorporating a similar application into the Montana rebate system.

5-10 Refugee Resettlement General Fund Reimbursement and Questioned Costs

The department receives a grant from the federal Office of Refugee Resettlement (ORR) to help support the integration of refugees in Montana. According to department records, the ORR program was charged $35,671 for payments made on behalf of refugees in fiscal year 1993-94. We reviewed these records and could only find supporting documentation for $22,507 of support payments to individuals. Federal regulations require the department maintain supporting documentation in its accounting records for all expenditures charged to federal programs. Therefore we question

$13,164 of medical payments charged to the ORR (CFDA #93.566) program.

Medical claims for certain refugees are eligible for reimbursement by the federal government. The department obtained the $13,164 amount from reports prepared from data submitted by a private contractor who processes Medicaid claims. Department personnel said they are unsure whether the expenditures were already charged to the Medicaid program which would mean the questioned expenses were charged twice to federal programs.

In fiscal year 1994-95, the department changed its procedures and stopped charging medical expenses to the ORR program. According to department personnel, the department has not established a procedure to account for medical services provided to ORR program recipients. Since many of the ORR program recipients are also eligible for medicaid, it is likely that Medicaid is paying for these costs.

Medicaid is matched with approximately 30 percent of General Fund money, while ORR is 100 percent federal money. By Medicaid paying for these services the General Fund is subsidizing the ORR program. It was not practical for us to calculate the financial impact this issue has on the General Fund because the department does not account for ORR Medical payments.

Recommendation #5-10

We recommend the department:

A. Properly account for the medical costs of the Refugee Resettlement program.

B. Reimburse the General Fund for its share of medical costs which should have been charged to the Refugee Resettlement program.

Agency Response #5-10
A. Concur.

B. Concur.

5-11 Montana Automated Child Care System Expenditures

The Departments of Social and Rehabilitation Services and Family Services coordinated funding to develop the Montana Automated Child Care System (MACCS). SRS agreed to provide Aid for Families with Dependent Children enhanced funding and General Fund moneys for the project. We reviewed the department's federal reports for MACCS expenditures and determined the department did not claim $651,794 of fiscal year 1993-94 expenditures against the AFDC (CFDA #93.560) enhanced funding program until the following fiscal year. The department must submit the federal expenditure report in order to receive reimbursement for expenditures incurred. The department received reimbursement approximately one year after incurring the related expenditures. We estimate the state lost interest earnings of $16,621 due to the delay in reporting.

According to department personnel, the expenditures were not reported in fiscal year 1993-94, due to an oversight. The department should establish procedures to ensure all expenditures are reported to the federal grantor agency on a timely basis.

Recommendation #5-11

We recommend the department establish procedures to ensure all federal expenditures are properly reported and billed in a timely manner.

Agency Response #5-11
Concur. Procedures have been established.

5-12 Food Stamp Risks

Background

Montana's Food Stamp program (CFDA #10.551) is designed to supplement the food budgets of low income households. The department contracts with an agent located in California for distribution of food stamps. This agent distributed food stamps for two states and several California counties. Nearly all federal and state food stamp reports are prepared based on information processed through the issuing agent's facility. The department determines recipient eligibility and provides the issuing agent with a list of eligible food stamp recipients and the amount of stamps to mail to each individual monthly. According to department personnel, by contracting with an issuing agent, the department eliminated any liability for food stamps held in the issuing agent's inventory. Federal regulations; however, hold the state liable for loss or theft of food stamps. The regulations do not allow the state to escape this liability even if it attempts to delegate the liability under contract to other parties such as the issuing agent. In accordance with federal regulations, the state will be held liable if the issuing agent has insufficient resources to pay for lost or stolen food stamps.

The department's contract with the issuing agent does not specify how much of the issuing agent's food stamp inventory belongs to Montana. The agent normally maintains up to $185 million in food stamps in a secured warehouse and $5 million in food stamp inventories on its own premises to accommodate its current distributions. The $190 million in food stamp inventory belongs to Montana, one other state, and several counties in California. The inventories are commingled, so the agent does not differentiate Montana's share of the inventory and the amounts attributable to its other clients.

Insurance Coverage

The department's contract requires the company to provide insurance to indemnify the state against potential food stamp inventory losses at both the company location and its secured warehouse. Montana is listed as an additional insured on the insurance policy covering the agent's premises, but Montana is not listed as having any rights to the insurance proceeds for potential losses at the secured warehouse. Only the issuing agent is listed on the policy covering the secured warehouse. The state could reduce its risk of loss associated with its share of the inventory located at the secured warehouse by requiring that Montana be listed as an additional insured on all insurance policies related to its share of food stamps. In addition, if the issuing agent has insufficient assets available and if insurance proceeds are not available or sufficient to pay for a loss, the courts may have to determine Montana's share of the liability. The department's contract should specify a method of determining Montana's share of inventory.

Independent Review

Federal regulations require each state which uses an issuing agent to periodically review the agent's system of internal accounting controls. Internal accounting controls are necessary to ensure the stamps are adequately safeguarded and to insure processing occurs only in accordance with the department's written instructions and federal regulations. Department personnel sometimes travel to the issuing agent's facilities in California to conduct a review of the agent's system. The department could further reduce its risk for distribution of food stamps by requiring the issuing agent to obtain an independent internal control system review. The scope of the review should include controls on the issuing agents premises as well as other food stamp storage sites. The review should include manual processes and computer applications. Other states or counties which use the same issuing agent are required to conduct similar reviews of the control systems. It may be more efficient and cost-effective for Montana, the other state, and counties contracting with the food stamp issuing agent, to pool their resources and contract for an independent review of the agent's system of controls.

Department personnel said these food stamp concerns have not previously been addressed because they had believed the state was not liable for the issuing agent's food stamp inventories or processing system. The department's contract with the issuing agent specifies the agent, and not the state, will be liable for all stamps held in its inventory. The contract also indicates the state will only assume liability after the stamps are mailed to recipients. However, the contract does not protect the state from liability for loss under the federal regulation.

Recommendation #5-12

We recommend the department:

A. Specify in the issuing agent's contract the method to be used in calculating the state's ownership interest in the food stamp inventory.

B. Require its issuing agent to include Montana as an additional insured for food stamps inventories located in its secured warehouse.

C. Consider requiring its issuing agent to obtain an annual independent review to ensure the agent's accounting controls are adequate.

Agency Response #5-12

A. Concur: The current contract will be amended to include methodology to calculate Montana s percent of food stamp usage for determining ownership interest on June 30, 1996.

B. Concur: The department agrees and will implement the recommendation immediately.

C. Concur: The department will require annual independent performance audits in all future contracts and if during the current contract period the department finds it necessary to reopen the bid process for other reasons, then the annual independent performance audit requirement will be added to

the current contract. The department will continue to maintain the current audit schedule for this service provider using available department staff.

5-13 Medicaid Personal Care Services Program Monitoring Quality of Care

The Medicaid Personal Care Services program (CFDA #93.778) provides long-term care to clients in their homes. The program is designed to prevent or delay institutionalization, thus providing clients the opportunity to remain in their homes and reducing costs to state and federal governments. Physicians must authorize personal care services for each recipient at least once a year. Services provided include feeding, bathing, dressing, preparation for sleep, and light housekeeping. Currently there are approximately 2,000 participants in the program. In fiscal year 1994-95, the department spent $10.8 million on the program, which was funded 71 percent by the federal government and 29 percent by the state.

The department has a responsibility under the program to ensure quality of care, and to ensure services are provided in accordance with program requirements. The department contracted with a private nonprofit corporation to provide a majority of personal care attendant (PCA) services. In our prior audit we recommended the department monitor the provider's compliance with the PCA services program contract in a timely manner. While we noted some improvement during the current audit, there are still areas where the department can improve its monitoring of the program.

As a result of the prior audit recommendation, the department required the private nonprofit corporation to have a special compliance review of its contract requirements. The review covered state fiscal year 1993-94. The report disclosed instances of noncompliance with the department's requirements. For example, the report said delivery of services according to the plan of care was complied with in only 68 percent of the cases tested. The department did not follow up on the report to determine if the corporation had implemented the recommendations. Department personnel believe they would receive more direct complaints if the services were only properly delivered 68 percent of the time. The department's recently adopted rules indicate that 90 percent

compliance is needed to be acceptable. There are no financial sanctions contained in the department's contract which would encourage the provider to ensure it complies with contract requirements.

In the prior audit we also recommended the department establish procedures in the PCA program to monitor incidents and complaints on a timely and on-going basis. In December 1993, the department concurred with the audit recommendation to monitor the providers compliance with the PCA program contract and incidents and complaints in a timely manner. Department personnel said the provider sends quarterly summaries of incident reports to the department. As of June 1, 1995, the latest quarterly report the department could provide was July 31, 1994. We believe this is not timely monitoring of program complaints. The last quarterly report received by the department contained 882 incident reports. The incident reports document complaints including client injuries, employee injuries, the PCA was late or did not show up to work, PCA/client conflicts, missing or damaged property, care delivery problems, safety issues, client noncompliance, and scheduling errors. With 882 incidents or complaints being filed over three months, the department has a responsibility to review complaints to determine if there are programmatic problems that should be addressed. Department personnel were not sure if the provider quit preparing the summaries or if they were prepared but not mailed to the department.

Starting July 1, 1995, the PCA program began using multiple providers instead of a single provider for PCA services. Department officials said this change came about because clients demanded it. In addition, new rules have been adopted for the program which require the department to conduct annual compliance reviews. If the provider does not comply with the contract the rules allow the department to impose sanctions.

Recommendation #5-13

We recommend the department:

A. Monitor providers' compliance with the Personal Care Services program standards in a timely manner and follow-up on reported instances of noncompliance to ensure services are provided within the program rules.

B. Monitor incidents and complaints in the Personal Care Services program in a timely and on-going manner.

Agency Response #5-13

A. Concur: The Department developed new rules for this program effective June 30, 1995. The new rules state the compliance standards, the compliance review schedules and the possible sanctions if a provider does not meet the standards. We are currently training our field staff to conduct these compliance reviews by having the field staff participate with state office staff in the first round of reviews in accordance with the rules. For all agencies, this means their first review is within 90 days of starting services or when they have at least 15 clients, whichever comes first. Field staff will conduct all future reviews. It will be the responsibility of the field staff to follow-up on reported instances of noncompliance.

B. Concur: The Department will monitor complaints in the manner stated in the administrative rules and will expect providers to respond to complaints as outlined in the Personal Care Services manual, section 306. The Department will monitor incidents by receiving incident reports of serious occurrences, as outlined in the Personal Care Services manual, section 311. It must be noted that in the previous single agency contract the provider defined what was to be reported by its employees as incidents. Many of the incident

reports under that system dealt with reports regarding employee/employer issues rather than issues important for the Department to learn of. Under the new multiple provider system, the Department has determined that reportable incidents consist of "serious occurrences or incidents that involve recipients or effect the provider agency's ability to deliver services". Because of the change in the responsibilities and duties of the field staff, we will have adequate staff to follow-up on complaints and serious incident reports as they occur. All ARM and PCS Manual cites are available at the department.

5-14 Federal Cash Management

The Cash Management Improvement Act of 1990 (CMIA) required the U.S. Secretary of the Treasury to enter into agreements with the states to establish terms and conditions for cash management for certain federal grant programs. The agreement with the state of Montana took effect on July 1, 1993. Several of the department's federal grants are subject to the specific requirements of the agreement. For these grants, the department must draw funds based on a warrant clearance pattern established by the Department of Administration. The clearance pattern is an estimate of the amount of time required for benefit checks to clear the bank. By drawing funds in accordance with the established clearance pattern, the department can ensure federal cash is appropriately managed.

We reviewed the department's procedures for requesting and expending federal funds in accordance with the CMIA agreement. We determined department personnel used cash draw patterns differing from those required in the agreement for the Disability Determination (CFDA #93.802) and Low Income Home Energy Assistance (CFDA #93.568) programs. Department personnel drew Disability Determination funds every 14 days instead of the 5 days required by the CMIA agreement. Low Income Home Energy Assistance Program (LIHEAP) funds were drawn every 12 days. The agreement requires the department to use 5 and 7 day patterns for LIHEAP benefit payments and administrative costs, respectively.

According to department personnel, the clearance patterns outlined in the CMIA agreement were not followed for two reasons. Personnel were either unaware of the CMIA requirements due to lack of training, or the personnel believed the established clearance patterns were not appropriate based on normal grant activity. Consequently, department personnel drew federal funds using intervals they believed to be appropriate for each grant, but which were not in compliance with the agreement.

Until the CMIA agreement is modified, the department is required by federal and state regulations to comply with the existing agreement. By drawing cash less often than required under the agreement the state loses interest revenue. The department should also provide proper training to employees responsible for performing cash draws. By providing training and establishing appropriate clearance patterns, the department can ensure compliance with the CMIA agreement.

Recommendation #5-14

We recommend the department:

A. Comply with cash draw requirements in the Cash Management Improvement Act agreement.

B. Provide appropriate training to employees responsible for performing federal cash draws.

Agency Response #5-14

A. Concur. We are now in compliance with CMIA.

B. Concur. Meetings have been held with Department of Administration and staff have been trained.

5-15 Developmental Disabilities Contracts

The Developmental Disabilities Planning and Advisory Council (council) plans and advocates services for persons with developmental disabilities. The council is administratively attached to the department and is funded through the federal Developmental Disabilities Basic Support and Advocacy grant (CFDA #93.630).

The department's Developmental Disabilities Division (division) provides services to developmentally disabled individuals. The council provides federal grant funds to the division for operations and management of the developmental disabilities program. During fiscal year 1993-94, the council entered into three contracts with the division. Two of the contracts were for travel costs, the first to the Annual Conference on Developmental Disabilities and the second to Regional Council meetings. The third contract provided funds to revise the existing system for evaluating services. Each contract outlined the terms and restrictions applicable to the award. We tested the division's compliance with the terms of each of the 1993-94 contracts. The following paragraphs outline non-compliance with contract requirements.

Timely Reporting

Each contract required the division to submit a final status report containing "a final accounting of all project expenditures, including expenditures for the council and all other sources." We determined the division did not submit reports for the regional council travel and service evaluation contracts. Division personnel stated they provided the council with a verbal presentation at the completion of the contracts and were not aware the contracts required final status reports in written format. However, division and council personnel developed a form for reporting final contract status after we questioned the practice of verbal reporting. Division personnel submitted written reports for these contracts once the form was complete.

Accurate Reporting

The division submitted a written final status report for the annual conference travel contract. The financial activity reported did not agree to the accounting records. The division reported expenditures of $28,562 while the accounting records contained total expenditures of $39,487. According to division personnel, the individual responsible for the report was not familiar with the accounting system. The division's fiscal personnel provided training to the individual responsible for the report once we brought the errors to their attention. Division personnel submitted a corrected report in October 1995.

Questioned Costs

The division received $9,659 from the council for the regional council travel and service evaluation contracts. The division recorded expenditures of $6,614 for these contracts, $3,045 less than the revenue received. According to department personnel, the council reported the entire $9,659 as transfers to the division. As a result, we question $3,045 of expenditures charged against the Developmental Disabilities Basic Support and Advocacy grant (CFDA #93.630) in fiscal year 1993-94. Council personnel were not aware that division personnel spent less than they received. We believe the council could have identified and corrected this discrepancy by requiring timely submission of written final status reports.

Recommendation #5-15

We recommend the department establish procedures to ensure complete, accurate, and timely reporting in accordance with grant and contract requirements.

Agency Response #5-15

Concur. Division and council personnel have developed a format for reporting final contract status. The division has retroactively submitted the reports and will continue to report in the agreed upon written form within time guidelines for report submission as detailed in grant and contract requirements.

5-16 Schedule of Federal Financial Assistance

Misstatements of Dollar Amounts

Department fiscal personnel prepare a Schedule of Federal Financial Assistance (SFFA) each fiscal year. The schedule reports expenditures of federal funds listed by Catalog of Federal Domestic Assistance number. The Governor's Office compiles SFFA schedules prepared by each state agency into a single SFFA for the state of Montana. We audit and express an opinion on the state of Montana SFFA in our biennial Single Audit report.

Federal regulations require the recipients of federal assistance to report all federal financial assistance expended each fiscal year. The regulations require the state, including the department, to accurately report the federal expenditures for each grant by CFDA number. The expenditures for federal programs must be supported by the state's accounting records.

During the past two audits of the department we identified errors and omissions on the department's schedules of federal financial assistance. During the current audit we identified the following errors on the SFFA report which the department submitted to the Governor's Office.

Summary of SFFA Misstatements

CFDA #	Program Description	Over (Under) Statement 1993-94	1994-95
10.567	Food Distribution - Indian Reservations		$ 278,161
81.999	PVE - Stripper Wells		(43,286)
84.181	Early Intervention - Part H	$1,036,459	
93.560	AFDC - TEAMS (FAMIS)	(651,794)	
93.560	AFDC - Benefits		(2,924,925)
93.560	AFDC - Maintenance Admin	(78,298)	
93.560	AFDC - Control of Fraud and Abuse	16,460	
93.560	Child Care		(271,745)
93.560	Montana Automated Child Care System	673,241	6,313
93.562	Teen Parent Demo Grant	(4,665)	
93.574	At Risk Child Care	(50,807)	
93.575	Child Care Block Grant	105,995	265,433
93.778	Medicaid - Benefits	3,673,387	(10,194,599)
	Net Misstatement	$4,719,978	$(12,884,649)

Source: Compiled by the Legislative Audit Division.

According to department fiscal personnel, the types of errors listed above occurred mainly because of human error and the pressure to have the SFFA completed by a specific deadline. Two examples of the errors are: reporting the SFFA amount based on a cumulative quarterly federal report rather than on the state fiscal year-end state accounting reports; or reporting both the state and federal share of expenditures rather than just the federal share of expenditures.

These errors could have been detected and prevented by adequate department supervisory review procedures. The department should establish procedures to ensure the accuracy and completeness of the amounts reported on the SFFA.

Misstatements of Catalog Numbers

In addition to the dollar amount misstatements discussed above, we found instances where the reporting of the CFDA numbers on the SFFA submitted to the Governor's Office were incorrect. The CFDA number identifies the specific type of federal assistance spent by the state. Without correct CFDA numbers, it's unlikely federal departments would be able to identify their grants on the SFFA. The following summary lists the CFDA number the department reported and the correct number that should have been used.

Summary of CFDA Numbers Reported Incorrectly

Program Description	CFDA # used	Correct CFDA #
PVE - Stripper Well	81.042	81.999
AFDC - Child Care	93.575	93.560
Teen Parent Demo Grant	93.022	93.562
Aging Administration	93.633	93.044
Child Care Block Grant	93.555	93.575
MT Automated Child Care System	93.555	93.560
Food Stamp Outreach	10.570	10.561
AFDC Fraud	93.775	93.560

Source: Compiled by Legislative Audit Division.

Department personnel attributed the CFDA number errors to not having a current copy of the CFDA listing as published by the federal government. The personnel indicated they have ordered and received a current copy of the Catalog of Federal Domestic Assistance which will provide a complete list of catalog numbers.

They believe this will enable them to remain current with the changes in CFDA numbers.

Recommendation #5-16

We recommend the department ensure established procedures are adequate to submit an accurate and complete Schedule of Federal Financial Assistance to the Governor's Office.

Agency Response #5-16
Concur.

5-17 LIHEAP Overpayment

We tested a sample of 22 Low Income Home Energy Assistance Program (LIHEAP) client files and found one client was overpaid $73. Federal regulations require us to report all instances of non-compliance with federal regulations regardless of the dollar amount.

The Administrative Rules established by the department state; if all members of a household are receiving Aid to Families with Dependent Children, Supplemental Security Income, or General Assistance, the members of the household are considered "categorically eligible" for determining the amount of LIHEAP benefits. We found one recipient who was incorrectly input to the LIHEAP computer system as categorically eligible. The recipient received a LIHEAP award of $217, but was only entitled to $144. Department personnel said a data input error caused the erroneous payment. Therefore, we question $73 in LIHEAP (CFDA #93.568) benefit payments.

Recommendation #5-17

We recommend the department pay the correct benefit amount to Low Income Home Energy Assistance Program recipients.

Agency Response #5-17
Concur.

Accounting Record Accuracy

State law requires transactions entered on the Statewide Budgeting and Accounting System be recorded in accordance with Generally Accepted Accounting Principles (GAAP). The Accounting and Management Support Division of the Department of Administration issues accounting rules to ensure state accounting policy complies with GAAP. Accounting for financial activity in accordance with these requirements improves the quality, consistency and comparability of the resulting financial information among state agencies. It also ensures revenues and expenditures are properly and consistently measured within each fiscal year. The following paragraphs describe instances of noncompliance with state accounting law and policy.

5-18 Reconciling Special Revenue Fund Balances

The department maintains a federal special revenue account to record activity related to most of its federal grants. The account records the activity for approximately 50 public welfare grants, such as Medicaid (CFDA #93.778), Aid to Families with Dependant Children (CFDA #93.560), Social Services Block Grant (CFDA #93.667), Low Income Home Energy Assistance Program (CFDA #93.568), Food Stamps (CFDA #10.551) and Child Support (CFDA #93.563). The department processed over $350 million dollars of revenue and expenditure activity in fiscal year 1994-95 through this account.

Department personnel have been unable to determine the appropriate fund balance for the account since its inception in fiscal year 1991-92. State accounting policy requires federal Special

Revenue Fund accounts to have a zero fund balance at the end of each fiscal year in the department's federal special revenue account. A federal account with an ending fund balance may indicate overexpenditure of federal funds, state contributions in excess of required match, or undercollection of federal revenues. The ending fund balances in the account since inception are outlined below.

Federal Special Revenue Account Ending Fund Balance

	Positive (Negative) Balances
Fiscal Year 1991-92	$ 754,700
Fiscal Year 1992-93	(14,101,917)
Fiscal Year 1993-94	5,600,476
Fiscal Year 1994-95	(619,295)

Source: Prepared by Legislative Audit Division from the Statewide Budgeting and Accounting System.

Prior to fiscal year 1991-92, the department used another account to record the department's federal grant activity. Department personnel established the current account because the department was not able to reconcile the old account.

In each audit report since fiscal year 1985-86, our office has recommended the department establish a system to analyze and correct the federal special revenue account fund balance. Department fiscal personnel reconciled the account's fund balance throughout subsequent fiscal years, but not in a timely manner. For example, department personnel completed the fiscal 1992-93 and 1993-94 reconciliations 5 months and 11 months after the close of the fiscal year, respectively. To complete the analysis, department personnel must review the financial activity for each grant. The activity for grants within the account can vary from a few thousand to over $250 million. Due to employee turnover and the department's reorganization into the new Department of Public Health and Human Services, department personnel indicated they did not have the resources necessary to complete the reconciliation for fiscal year 1994-95.

Recommendation #5-18

We recommend the department establish procedures to ensure its federal special revenue account is reconciled at each fiscal year-end.

Agency Response #5-18

Concur. As part of agency reorganization the department is restructuring the accounting system to utilize individual accounting entities to record federal activity by CFDA number. This action in conjunction with strong procedures and continuous monitoring will result in zero fund balances at SFYE. The old accounting entity 03276 will be reconciled and deleted (during SFY97).

5-19 Unreconciled Child Support Payments

Child Support Enforcement Division (CSED) personnel are responsible for collecting and distributing absent parent child support payments to custodial parents. Custodial parents may receive assistance from the Aid to Families with Dependent Children program (CFDA #93.560) if they assign their child support payments to the department. In accordance with federal regulations, custodial parents who assign their payments to the department receive $50 from each payment in addition to their AFDC assistance. The department uses the balance of the payment to defray the cost of the AFDC program.

CSED personnel use a computer system to account for the child support payments received. From this system, they compile a listing of custodial parents authorized to receive the $50 payment. This listing is used by the TEAMS computer system to generate payments to custodial parents. The total amount paid to the custodial parents is frequently less than the amount authorized.

We reviewed CSED procedures and determined department personnel do not reconcile any differences between the two computer systems. As a result, the accounting records contain an accounts payable balance of $49,835 at fiscal year-end 1994-95. Based on review of the accounting records, these differences

occurred as far back as fiscal year 1989-90. These differences are outlined below.

Summary of Child Support Accounts Payable
Fiscal Years 1989-90 through 1994-95

	Positive (Negative) Balance
Fiscal year 1989-90	$ 21,323
Fiscal year 1990-91	0
Fiscal year 1991-92	32,130
Fiscal year 1992-93	8,096
Fiscal year 1993-94	(19,404)
Fiscal year 1994-95	7,690
Total Unreconciled Balance	$ 49,835

Source: **Compiled by the Legislative Audit Division from the Statewide Budgeting and Accounting System.**

The summary illustrates the unreconciled balance which occurred since fiscal year 1989-90. These unreconciled balances have accumulated to a net $49,835 account payable on the state's accounting records at June 30, 1995. According to department personnel, reconciliation of the two systems takes extensive time and effort.

The potential exists for families to be underpaid if CSED personnel do not perform timely reconciliations. The department should establish procedures to ensure CSED personnel are notified by personnel from the TEAMS system when authorized payments are not made to custodial parents. This will allow the department to ensure custodial parents receive the proper benefits and the accounting records reflect the appropriate amount of payments made each month.

Recommendation #5-19

We recommend the department reconcile and properly resolve the differences for payments authorized by the child support system to the payments disbursed by the AFDC program.

Agency Response #5-19
Concur.

5-20 Other Accounting Errors

We reviewed the department's accounting activity recorded on the state accounting records and identified several accounting errors resulting from human error or oversight. These are outlined in the following paragraphs.

Medicaid Benefits Underaccrued

Medicaid (CFDA #93.778) providers are allowed to submit claims for services up to one year after the date of service. At the end of each fiscal year, department personnel estimate the liability related to services provided but not billed. Department personnel record their estimate on SBAS to comply with state accounting policy. For fiscal year 1993-94, department personnel underaccrued Indian Health benefits of $278,440. Department personnel indicated they recorded the accrual using the amount of benefits paid during the year rather than the estimated benefit liability. This error understates expenditures and liabilities by $278,440 for fiscal year 1993-94.

Disallowed Federal Expenditures not Recorded

Medicaid (CFDA #93.778) regulations require states to pay Medicare premiums for qualified low income individuals. In November 1991, department personnel discovered the premiums for some individuals were charged entirely to the General Fund during fiscal years 1988-89 through 1990-91. Approximately 70 percent of these costs, or $575,415, should have been charged to the federal Medicaid program. The department charged $575,415 of prior year buy-in premium expenditures against the Medicaid program in June 1991 and reimbursed the General Fund for $575,415 in June 1992.

Federal program personnel performed a review and disallowed $261,757 of the $575,415 claim because federal regulations require states to file claims for expenditures within two years after the calendar quarter in which the state agency made the expenditure. All claims prior to June 30, 1990 were disallowed. The department recorded the disallowance on the Health Care Finance Administration quarterly report in March 1994.

Department personnel improperly adjusted SBAS for the disallowance during fiscal year-end 1994-95 by abating current year expenditures in both the General and Special Revenue Funds and reducing a fiscal year 1992-93 Medicaid accounts payable in the General Fund. The department reduced expenditures in the General Fund because personnel incorrectly believed they needed to adjust the state Medicaid match. Also, because the correcting entry occurred three years after the original transaction, state accounting policy requires the correction be recorded as a direct entry to fund balance, not as an reduction of expenditures. Consequently, expenditures reported on the Schedule of Budgeted Expenditures and Transfers Out for the fiscal year ended June 30, 1995 are understated by $106,521 in the General Fund and $261,427 in the Special Revenue Fund.

Asset and Liability Overstated

Department personnel distribute federal grant revenues among appropriate grant programs based on reports generated by its cost allocation system. Department personnel record federal revenue in a central clearing account on receipt. At fiscal year-end, department personnel distributed revenue from the clearing account, but improperly offset the distributions against Deferred Revenue and Due from Federal Government. This offset caused revenues on subsequent cost allocation reports to be understated. In addition, the department recorded two other adjustment transactions which compounded the errors. Based on our analysis of the errors, we determined the Deferred Revenue, Due from Federal Government, and revenue accounts are overstated by $6,552,236, $6,317,685, and $234,551, respectively, in the Public Welfare Special Revenue Fund for fiscal year 1994-95. This fund is used to account for federal programs such as, Medicaid (CFDA #93.778), AFDC (CFDA #93.560), and Food Stamps (CFDA #10.551). Department personnel processed a correcting entry in October 1995.

Recommendation #5-20

We recommend the department establish procedures to ensure accounting transactions are recorded on the state's accounting records in accordance with state accounting law and policy.

Agency Response #5-20
Concur.

The Economic Assistance Management System

The Economic Assistance Management System (TEAMS) is an on-line application which maintains client information and determines client eligibility for the AFDC (CFDA #93.560), Food Stamp (CFDA #10.551), and Medicaid (CFDA #93.778) programs. Because TEAMS is an on-line application, it determines client eligibility and calculates Food Stamp and AFDC benefits during the client interview. TEAMS also determines client eligibility for Medicaid and reports eligibility information to a service center which processes Medicaid claims. Individuals apply for assistance at local county human services departments throughout Montana.

The department's Family Assistance Division manages and supervises the Food Stamp, AFDC, and Medicaid programs. The division's responsibilities include developing policies and procedures which comply with state and federal laws and regulations. The division also supervises the implementation of these programs at the counties. Department employees at the counties administer the programs.

The federal Departments of Health and Human Services, and Agriculture reviewed and certified the TEAMS application upon completion of system development. We performed an application review of TEAMS. During our review, we examined the existing input, processing, and output controls. Overall, we concluded the controls over TEAMS are adequate to determine client eligibility and calculate benefits in accordance with federal regulations.

However, we found areas where the controls should be improved over the security and integrity of TEAMS data.

Although we found only two instances where benefits were affected by data entry errors, we found numerous data entry errors. We believe the potential for inappropriate benefit distribution exists. By addressing these concerns and improving data entry controls, database accuracy would be improved. Issues 5-21 and 5-22 summarize our review of TEAMS.

Input Procedures

Caseworkers at county offices throughout Montana interview and assist clients applying for Medicaid, Food Stamp, and AFDC benefits. The caseworkers enter information to TEAMS from client prepared applications. When the caseworker has entered data to TEAMS, the computer application automatically determines client eligibility and calculates benefits.

TEAMS compares client financial resources, living expenses, and family situation to federal eligibility standards. TEAMS determines if applicants meet eligibility standards and calculates benefit payments clients should receive. For TEAMS to properly determine eligibility and calculate benefits, caseworkers must enter all client information to TEAMS accurately.

Input controls are designed to ensure accuracy and completeness of data entered to computer applications. These include controls built within an application and outside controls implemented by management. For example, help screens guide caseworkers through various data entry procedures. In addition, TEAMS includes controls designed to detect inaccurate or unreasonable data input. However, as discussed below, we found management could implement additional controls to improve completeness and accuracy of information input to TEAMS.

We reviewed 58 client files for each federal program to test whether TEAMS properly determined client eligibility and calculated benefits in accordance with federal regulations. We found TEAMS properly determines eligibility and accurately calculates benefits based on the information entered from the application.

However, we identified several instances where caseworkers overlooked applicant information or incorrectly entered the information to TEAMS. These issues are summarized below.

5-21 Data Accuracy

TEAMS is designed to accurately determine client eligibility and calculate benefits for the AFDC (CFDA #93.560), Food Stamp (CFDA #10.551), and Medicaid (CFDA #93.778) programs. To meet this objective, client data entered on TEAMS must be accurate. As discussed in the following sections, we found instances where the department could improve data accuracy.

Incorrect Expenditure Allowances Caused Improper Benefit Awards

TEAMS evaluates client living expenses to calculate the amount of Food Stamp coupons clients should receive. Federal regulations for the Food Stamp program define specific expenditure allowances. These allowances represent the maximum living expenses which are deducted from monthly income to determine need. For example, federal regulations limit the shelter allowance to $194. If a client pays $244 a month for rent, only expenses up to $194 are considered when determining eligibility. We found several instances where the caseworkers entered incorrect expenditure allowances to TEAMS. Two of these errors caused improper benefit awards to Food Stamp clients.

Federal regulations allow disabled clients to claim actual monthly housing costs incurred, even if costs exceed the maximum shelter allowance. We determined a disabled client received the maximum shelter deduction when his actual housing costs were more. As a result, the client was underawarded Food Stamp benefits by $2.56. The caseworker could not explain why this error occurred but corrected the error after we brought it to the caseworker's attention.

In the other instance, we determined a caseworker entered the standard utility allowance for a Food Stamp client who was not eligible for the allowance. Federal regulations allow a standard utility allowance of $225 per month for clients who incur utility expenses separate from rent or mortgage expenses. If the client participates in the Low Income Energy Assistance Program (LIEAP), they are automatically entitled to receive the standard

utility allowance. This client had participated in LIEAP prior to the month tested. However, we determined the client was no longer participating in LIEAP and therefore not eligible for the utility allowance and utility expenses were overstated. Because the caseworker overstated utility expenses, the client received excess Food Stamp benefits of $60. The caseworker did not realize the client no longer participated in the LIEAP program. The caseworker did not correct this error after we brought it to the caseworker's attention. We question the allowability of $60 charged to the Food Stamp program (CFDA #10.551).

TEAMS Information did not Agree to Application

We compared the information on the client application to data input on TEAMS. Of the 58 case files for each program, we found the following instances where information did not agree.

1. Seven Medicaid cases contained incorrect vehicle year, date of birth, and/or marital status.

2. Eight AFDC cases contained incorrect Indian enrollment, social security numbers, date of birth, and/or asset values.

3. Three Food Stamp cases included incorrect marital status, income type, and/or eligibility start date.

Industry standards suggest management implement effective input controls to prevent inaccurate data entry to computer applications. Although these errors did not affect eligibility or benefits, the potential exists that such errors could cause incorrect determination of eligibility and benefit payments. Caseworkers could not explain why these errors occurred.

Client Resources not Included on TEAMS

We found four Medicaid cases where caseworkers did not include client vehicles on TEAMS. Federal regulations allow Medicaid applicants to exclude one vehicle from financial resources if the vehicle is required for employment or regular medical treatment, serves as handicap transportation, or is needed to perform essential daily activities. If the vehicle does not meet this criteria, federal regulations require the fair market value in excess of $4,500 be included as a resource to determine Medicaid eligibility. Unless all vehicles are included on TEAMS, more than one vehicle could be

exempted from resources causing improper determination of Medicaid eligibility.

In another instance, we found TEAMS did not include all client bank accounts for a Food Stamp case. Although this error did not affect financial eligibility, excluding bank accounts from TEAMS could cause excess Food Stamp benefit awards.

Industry standards suggest management implement effective input controls to provide completeness of data entered to computer applications. Caseworkers indicated these errors were an oversight and/or they did not enter information to TEAMS because it did not affect eligibility. Caseworkers should include all client information and rely on TEAMS to properly determine eligibility and calculate benefits.

Summary

Based on our findings, we believe the department should implement additional input controls to provide complete and accurate client information. We found situations where caseworkers entered improper expenditure allowances and incorrect information. In addition, we found caseworkers did not enter all client information. These errors occurred because caseworkers overlooked client information or determined the information was not necessary to include on TEAMS. As discussed above, we found errors which caused improper Food Stamp benefit awards. While most errors did not affect eligibility or benefits, these errors could cause improper AFDC, Food Stamp, or Medicaid awards.

The department's Audit and Compliance Bureau randomly selects case files for review. The review objective is to identify cases where eligibility or benefit awards were improperly determined. We found the Audit and Compliance Bureau reports instances of incomplete or inaccurate data entry on TEAMS to county offices but does not determine if counties corrected the errors. Even though eligibility and benefits were proper during case review, incomplete or inaccurate client information could cause improper awards in future benefit periods. For example, if client information or federal regulations change, incomplete or inaccurate client data could cause improper benefit awards. We believe the department should establish procedures to determine if county

offices correct all reported instances of incomplete or inaccurate data entry on TEAMS. In addition, county office supervisors could randomly review cases to determine if caseworkers entered information accurately and completely on TEAMS.

Based on our follow-up during 1994, we found the department had implemented part A and had partially implemented part B of this recommendation. We reviewed the fiscal year 1993-94 materials for TEAMS training courses and verified county caseworkers were instructed to input complete and accurate client information on TEAMS. In May 1994, the Family Assistance Division established procedures for correcting input errors which result in benefit overpayment. However, the department has not established procedures to ensure all data entry errors are corrected.

Recommendation #5-21

We recommend the department establish procedures to:

A. Provide complete and accurate client information on TEAMS.

B. Correct all reported instances of inaccurate and/or incomplete client information on TEAMS.

Agency Response #5-21

A. Training materials advise caseworkers to enter complete and accurate data on TEAMS.

B. Procedures for correcting data input errors which result in benefit over or underpayments have been established.

5-22 Verification Procedures

Caseworkers enter verification codes to TEAMS which document if they visually verified client information, accepted client statement, or if they obtained hard copy documentation. Although caseworkers receive training to operate TEAMS, we determined the department has not provided clear guidelines for proper use of verification codes. We found caseworkers follow inconsistent procedures for verification codes. We also determined different counties follow different procedures for documenting information in client case files. For example, some county caseworkers obtain and file all hard copy verified information while others use the hard copy verification code to indicate they only reviewed documentation.

Federal regulations do not specifically require hard copy documentation for AFDC (CFDA#93.560) and Medicaid (CFDA #93.778) eligibility determination. However, federal regulations for the Food Stamp (CFDA #10.551) program state "Documentation must be in sufficient detail to permit a reviewer to determine the reasonableness and accuracy of eligibility determination." In addition, EDP guidelines suggest management establish training procedures and user documentation which provides for proper data input to computer applications. Although the department has an established training program and user manuals, we believe the department should provide clear instructions for verification codes.

We found instances where caseworkers entered the hard copy verification code but did not verify client savings accounts or include supporting documentation for client resources or expenses in the case files. Because the caseworkers did not obtain documentation for the client accounts, we could not determine if these clients were properly determined eligible for AFDC or Food Stamp benefits. Caseworkers stated they accidently entered the wrong verification code.

Department officials indicated TEAMS was designed to reduce paperwork so they established the visual verification code. However, instructions for verification code use would improve caseworker efficiency and provide consistent documentation procedures for client information.

Based on our follow-up during 1994, we found the department had implemented this recommendation. We reviewed and verified the instructions provided to the county caseworkers provide clear guidance on the proper use of verification codes.

Recommendation #5-22

We recommend the department establish additional instructions which address use of verification codes.

Agency Response #5-22
The department has implemented this recommendation.

SEARCHS Background

The Child Support Enforcement Division (CSED) of the Department of Public Health and Human Services (DPHHS) was established to aid in locating absent parents, and recovering child support from those parents. The federal Family Support Act of 1988 mandated that all states have federally-certified automated child support enforcement systems by September 30, 1995. Congress recently passed legislation which extended the date for federally-certified automated systems to September 30, 1997.

The state of Montana began planning for its automated system, System for the Enforcement And Recovery of Child Support (SEARCHS), in February 1989. As a result of a competitive procurement, the department selected a vendor to transfer and implement San Francisco's county-based CASES system. The contract between the state of Montana and the vendor received federal approval in October 1991, with a fixed price amount of $5,295,901.

SEARCHS was implemented over a four month period beginning in March 1993 and ending in June 1993. In September 1994, the U.S. Department of Health and Human Services (HHS) granted conditional certification to SEARCHS and noted additional enhancements/modifications which were required prior to granting full certification. The certification review team noted Montana is

the first state to have an automated child support enforcement system certified as meeting the requirements of the Family Support Act of 1988. By June 1993, SEARCHS supported 42,235 cases. CSED expects this will increase to 58,139 cases by the end of state fiscal year 1997.

Federal certification requirements for child support enforcement systems are established by the Administration for Children and Families (ACF) of HHS. The ACF established these requirements through the publication of regulation 45 CFR 07. The regulation governs enhanced funding for the acquisition and operation of comprehensive statewide child support enforcement systems. One primary requirement of the federal regulations relates to the interface between the Aid to Families with Dependent Children (AFDC) program and the child support enforcement system.

The Montana SEARCHS system meets and exceeds federal design requirements for the operation of an automated child support system. SEARCHS provides information for case management, enforcement of support orders and reporting to document compliance with federal regulations. It is a complex and comprehensive system. SEARCHS encompasses all child support enforcement services in the state and supports the following entities: five regional offices (Billings, Butte, Great Falls, Missoula, and the interstate regional office located in Helena); the Technical Accounting and Payment Processing Unit in Helena; the department's Office of the Administrative Law Judge in Helena; and central administration of the CSED in Helena.

The CSED had approximately $28.9 million of total child support (CFDA #93.563) collections in fiscal year 1994-95, including $8.6 million in federal reimbursements for AFDC (CFDA #93.560) payments made. We determined compliance with state and federal laws and regulations applicable to the SEARCHS system. Generally, we found the department to be in compliance with federal child support enforcement regulations, as well as state statutes.

SEARCHS Electronic Access Controls

Access controls provide electronic safeguards designed to ensure computer system resources are properly used. Logon IDs and passwords control electronic access to DPHHS's computer applications, computer programs, and computer data. Federal regulations require the state to have policies to evaluate SEARCHS for risk on a periodic basis. The system must be protected against unauthorized access to computer resources and data in order to reduce erroneous or fraudulent activities. In addition, the state of Montana Information Technology Advisory Council has adopted guidelines for establishing electronic access controls for all computer system platforms. The guidelines are included in the Department of Administration's state "Computing Directions, Standards, and Guidelines" manual.

Proper access controls assist in the prevention or detection of deliberate or accidental errors caused by improper use or manipulation of data files, unauthorized or incorrect use of a computer program, and/or improper use of computer resources. The department's security officer writes rules which limit access to specific areas of the system. Assigning limited access based on job requirements facilitates checks and balances in the system. This approach prevents users from inadvertently or willfully executing programs or changing data unrelated to their job.

System and application programmers have the highest degree of technical expertise in the computer processing facility and; therefore, play an important role in maintaining the system. However, managers have the primary responsibility for maintaining adequate controls. Without adequate controls, computer specialists could alter program procedures and data for personal gain. We identified an area where the department could improve its access controls.

5-23 Caseworker Access to Accounting Screens Should be Restricted

When a new child support case is created, the initial accounting information (support order amount, payment history, etc.) is entered by the caseworkers. The caseworker then has the ability to update or change the accounting information on that account, but only for that day. After that, the caseworkers are locked out of most of the accounting screens, and any changes or additions must

be requested and made through the Technical Accounting and Payment Processing Unit (TAPP).

The one exception to this is the Debt Order History (DOH) screen. Caseworkers may change the information on the DOH screen at any time, and the change does not affect the other accounting screens. This often results in different information on the DOH screen from information on the rest of the accounting system. We tested some active child support cases, and found in several of the cases the DOH screen did not agree with other accounting screens.

The DOH screen is used to print the Debt Comp History report. The Debt Comp History report is a comprehensive summary which details the amounts owed by the absent parent, the amounts paid throughout the life of the case, and the current amount owed. The report is distributed to the CSED clients and documents the legal obligation of the absent parent. Therefore, it is imperative the information on the report be accurate. This is difficult to ensure, since the information can be changed by the caseworker at any time, with or without supporting documentation.

We interviewed several department personnel and found a common opinion between many of the caseworkers, TAPP personnel, and management. The common opinion was that the accounting system is quite complex, and the caseworkers do not have the expertise to adequately update/change the accounting information. In order to ensure all accounting information relating to a case is accurate and complete, we believe the department should either restrict access for the accounting screens to only those individuals trained to perform those tasks or establish other controls to ensure the DOH screen agrees to the other accounting screens. The restricted tasks would include account setup, changes to the accounts, and generation of Debt Comp History reports.

Recommendation #5-23

We recommend the department either restrict access to the accounting screens to the Technical Accounting and Payment Processing Unit personnel or establish other controls to ensure the DOH screen agrees to other accounting screens.

Agency Response #5-23

The department concurs that the Debt Order History Screen should agree with the information on the accounting system. The department will establish appropriate controls to ensure the DOH screen agrees to other accounting screens. The department estimates this can be accomplished by fiscal year end.

SEARCHS Regional Office Issue

SEARCHS is a complex and comprehensive system. It provides some "tools" to aid the caseworkers in processing and managing their individual cases.

A "casenotes" screen is provided to allow the caseworker to record all activity on the case. The system automatically generates some casenotes, and the caseworker can manually input casenotes that are not generated by the system.

A monthly "aging report" is issued to each caseworker, listing all of the cases assigned to the caseworker, sorted in order of "last update date." Information on the report includes participants in the case, status of the case, and the date the case was last updated ("touched") by the caseworker. The caseworker can quickly identify cases that have not had recent activity, and determine whether further action is necessary.

"Ticklers" are automatically generated by the system, indicating to the caseworker that something may need to be done to update the case. For instance, the system will automatically notify the caseworker when a child is about to turn 18 (emancipation), which may require the caseworker to change the status of the case. Also, if more money is received from the absent parent than what is currently required, the system will notify the caseworker that action needs to be taken to

determine whether to refund the money, apply it to arrears, or apply it as a pre-paid for future obligations. There are over one hundred automatic ticklers. The caseworker can also manually create a tickler, as a self-reminder.

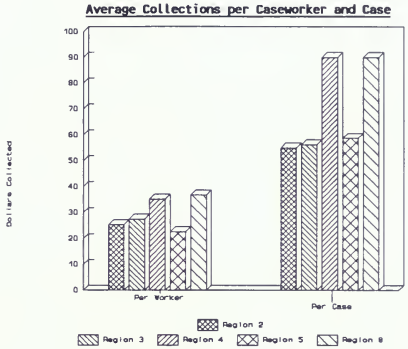
Caseworkers who work on the individual child support cases are located in one of five regional offices located in Butte, Billings, Missoula, Great Falls, and Helena. We visited each of the regional offices and tested casefiles and interviewed caseworkers. We identified an issue relating specifically to the handling of cases, and the information maintained in the casefiles. This issue is discussed in the following section.

Case Management

Each region has established policies and procedures for handling cases and using the system tools. The regional offices have inconsistent policies on the handling of the monthly aging reports. Two regions require the aging reports be used so that all cases are "touched" at least every 90 days, while the other regions suggest the cases be "touched" annually. Consistent statewide policy regarding the use of this system tool could improve the program's case management as discussed below.

5-24 Aging Report not used Consistently

The regions that "touch" their cases every 90 days or less through use of the aging report have consistently higher rates of collections per caseworker, collections per case, and total cases in enforcement status (see bar graph below). Management for those regions attribute those higher rates, at least in part, to their aging report policy.



Source: Compiled by the Legislative Audit Division from department records.

Caseworkers and management personnel at the other regions indicated there are several reasons they do not "touch" all cases every 90 days. Some said their caseload is too high and; therefore, they do not have the time nor resources to properly handle their cases that often. Additionally, they stated the ticklers notify them of case activity and need for action, so working the aging report is not necessary.

During our testing of casefiles at the regions, we found one case where the custodial parent was receiving AFDC for several months, although AFDC support could have been denied due to noncooperation with child support services. The division did not make the recommendation to the AFDC agency regarding noncooperation in a timely manner. In another case the absent parent was receiving social security benefits, as identified through the SEARCHS interface with SSI. The case was in "locate" status (unable to locate the absent parent) even though the system had identified the location through the SSI interface. The case had not been reviewed for over 11 months. If it had been reviewed on a regular basis, the case may have been moved to "enforcement"

status and the custodial parent could have been receiving child support for those months.

The department's management reports indicate areas where particular regions perform more efficiently. We believe the department should determine the reasons for the efficiencies, and consider establishing statewide policies to aid the other regions in increasing their efficiency. One of the tools designed to increase the efficiency of the caseworker is the aging report.

Recommendation #5-24

We recommend the department establish statewide policies for the consistent use of the aging reports by regional caseworkers.

Agency Response #5-24

The department agrees that the Caseload Report and the SEARCHS tickler system currently offer the best methods of effectively managing a caseload. Furthermore, "dovetailing" these two management tools together will enhance the ability to achieve regional performance and collection goals. A policy memorandum (Management Memo 96-01) has been issued to all staff requiring mandatory use of the aging list by caseworkers. The policy memorandum asserts that each case be "touched" at least once every 90 days. "Touching" a case is defined as; reviewing and, if appropriate, taking action to ensure federal and state compliance. When reviewing cases, caseworkers have been formally instructed, via the policy memorandum to pay particular attention to the possible locate, paternity, establishment, enforcement, and/or medical services required. After review, the written policy requires an update to the "Last Reviewed Date" field found on the CAS screen.

SEARCHS Central Office Issue

The Administrative Services Bureau of the CSED office is located in Helena. Within the bureau are the System Policy and Training Unit and the TAAP Unit. Personnel within these units provide support such as training, accounting/bookkeeping, table information updates, and program enhancements which benefit all caseworkers throughout the state. We identified an issue related to these centralized functions. This issue is discussed in the following section.

5-25 Table Testing

SEARCHS utilizes system tables which contain key data used in other processes, such as numbers, percentages, rates, codes, limits, etc. This data is placed in tables for ease of maintenance as the data changes. The data in these tables is used in calculating child support amounts, and is input based on federal regulations, as well as state statutes. For example, a caseworker enters client income and household size, and SEARCHS compares this information to state and federal standards included in the tables and automatically determines the authorized child support obligation.

We reviewed the information in the tables and found three different tables where the information contained therein was inaccurate based on current guidelines. Two of the tables contained three different errors, and the remaining table had one error. The information on these tables is used in the calculation of disposable income, which is the basis for determining the amount of a child support payment. Depending on the case, disposable income could have been calculated either too high or too low. As a result, child support payments due from absent parents may have been calculated incorrectly. The data on the tables should be reviewed periodically to ensure it is up-to-date and accurate.

Agency personnel indicated changes to the tables are performed only as requested, and there are no policies or standard procedures regarding table maintenance. Information on the tables is not periodically reviewed to ensure it is up-to-date. In addition, access to change the tables is not controlled, so unauthorized changes could be made by several individuals. This increases the need for periodic review of the tables.

Recommendation #5-25

We recommend the department establish policies and procedures for periodic review of tables to ensure the information is current and accurate.

Agency Response #5-25

The department concurs. The department has developed a list of the individuals responsible for the maintenance of SEARCHS tables. That list will be updated to include the target dates for review and updating of the tables. For those tables that require updating on an as needed basis a regular schedule of maintenance will be developed. In addition the department will develop an agreement with the contractor regarding the tables that are its responsibility. The agreement will identify the individual responsible for each table's maintenance and the target dates by which it should be completed.

Contracted Audits

The Office of Public Instruction (OPI) was audited by a public accounting firm under contract with the Legislative Audit Division for the two fiscal years ended June 30, 1994. OPI is currently being audited by a public accounting firm under contract with the Legislative Audit Division for the two fiscal years ended June 30, 1996. OPI receives most of its federal assistance from the U.S. Departments of Agriculture, Interior, Labor, Transportation, Veterans Affairs, Education, and Health and Human Services. Federal issues identified and recommendations made by the public accounting firm as a result of these contracted audits are as follows. Reference to "SBAS" in these issues is to Montana's Statewide Budgeting and Accounting System. The status for each issue is the representation of the contract auditor.

6-1 Federal Financial Reports

Condition:
The federal financial status report submitted to the United States Department of Agriculture (USDA) for the quarter ended June 30, 1993, was filed ten days late (Letter of credit #12-35-3031) (CFDA #'s 10.553, 10.555, 10.556, 10.559, 10.560 and 10.564).

Criteria:
Based on the USDA guidelines, the SF-269 quarterly report is due on the last day of the month following the reported quarter.

Effect:
The June 30, 1993 report was not submitted in a timely manner.

Perspective:
Population - Four Quarterly Reports
Sample Size - One Quarterly Report

Cause:
Unknown

Status:
No instances of non-compliance were noted for the fiscal year ended June 30, 1994.

Recommendation #6-1:
We recommend OPI comply with federal regulations concerning the filing date of federal financial reports.

Agency Response #6-1:
Concur. A control system will be designed and implemented to ensure that federal financial reports are filed by the due date.

6-2 Federal Financial Reports

Condition:
The expenditures reported on form 269 for June 30, 1994 filed with the United States Department of Agriculture did not agree with SBAS.

Criteria:
Based on the Single Audit general requirements, the federal financial reports should agree to the general ledger.

Effect:
The June 30, 1994 report did not agree to the general ledger.

Perspective:
Population: Four Quarterly Reports
Sample Size: Two Quarterly Reports

Cause:
July expenditures were inadvertently included in the expenditure totals.

Status:
No instances of non-compliance were noted for the fiscal year ended June 30, 1995.

Recommendation #6-2:
We recommend OPI comply with federal regulations concerning the federal financial reporting.

Agency Response #6-2:
Concur. Controls have been implemented to ensure the expenditures reported on Department of Agriculture Form 269 agree with SBAS.

6-3 Monitoring Subrecipients

Condition:
OPI did not receive audited financial statements for one project required to have a single audit.

Criteria:
OPI is required to monitor subrecipients by reviewing audited financial statements for all subrecipients that receive specified amounts of federal funds.

Effect:
The audited financial statements for one subrecipient were not received or reviewed as required by the Single Audit Act of 1984.

Perspective:
Population: 435 Districts
Sample Size: Five subrecipients audited financial statements.

Status:
No instances of non-compliance were noted for the fiscal year ended June 30, 1995.

Recommendation #6-3:
We recommend that OPI comply with the Single Audit requirement to receive and review audited financial statements for subrecipients that are required to have audits.

Agency Response #6-3:
Concur; however, it should be noted that OPI's subrecipient monitoring system is used to notify the Montana Department of Commerce which school districts qualify for an audit under the Federal Single Audit Act. Our system is not used to monitor district compliance with audit report filing deadlines; rather, that responsibility is specifically assigned to the Department of Commerce in 2-7-503, MCA. As a party to all school district audit contracts, the Department of Commerce knows when a particular district's audit report is due and has authority under state law to impose a penalty on districts that fail to submit their report.

6-4 Federal Financial Reports Internal Control

Condition:
The federal financial expenditures reported on form 269 filed with the United States Department of Agriculture are prepared, signed and submitted by one individual.

Criteria:
The single audit general requirements state that federal financial reports should be accurate and agree to the general ledger.

Effect:
There is a possibility reports submitted do not agree to the general ledger.

Perspective:
Population: Four Quarterly Reports
Sample Size: Two Quarterly Reports

Cause:
During the fiscal year ended June 30, 1994, OPI re-organized the functions performed by the fiscal staff. As a result of the re-organization no individual is reviewing these reports.

Status:
Form 269 is reviewed by an individual independent of preparing the reports.

Recommendation #6-4:
We recommend OPI review the internal control system for federal reporting. At a minimum, the reports should be reviewed for accuracy by an individual independent of the preparation of the reports.

Agency Response #6-4:
Concur. The staff reorganization referred to in the audit report was a result of the November 1993 special session, during which six FTE were eliminated in the Office of Public Instruction. One of the positions lost was a full-time Fiscal Officer in the Centralized Services Division. This individual played a vital role in OPI's system of internal controls and was responsible for providing an independent review of federal fiscal reports. Although the Fiscal Officer's position was eliminated within OPI, we will comply with the auditor's recommendation by assigning this responsibility to another staff member.

6-5 Special Reporting

Condition:
The average daily meals reported on the February 1995 FNS-10 Report for School Food Service did not agree to supporting documentation.

Criteria:
The FNS-10 report should accurately reflect the data on the support documentation.

Effect:
The average daily meals reported U.S. Department of Agriculture were inaccurate. An amended report reflecting the current average daily meals was filed once the discrepancy was communicated to OPI.

Perspective:
Population: Twelve (12) Monthly Reports
Sample Size: Two Monthly Reports

Cause:
Unknown

Recommendation #6-5
We recommend OPI review control procedures for the FNS-10 report to ascertain their adequacy in helping to ensure the accuracy of the reports.

Agency Response #6-5
Concur: The control system will be reviewed and modified as necessary to help ensure the accuracy of the FNS-10 reports.

7-1 Improperly Deleted Equipment

The department maintains accountability for its buildings, land and equipment on the state's Property Accountability Management System (PAMS). We reviewed the department's property listing which totalled approximately $7.8 million at June 30, 1994, and noted $430,787 of state property was deleted from the inventory because it was not located during the fiscal year 1993-94 physical inventory. Subsequent to the audit, the department located equipment totalling $187,477 and reestablished this property on PAMS.

The Montana Operations Manual (MOM) stresses the importance of complete and accurate property accounting records. According to state policy, complete and accurate records are essential for the protection of state property. Without accurate records the state risks losing property due to theft and misuse. The state policy requires adjustment and reconciliation of the accounting records after completing an inventory. The policy states that fixed assets disclosed by the inventory should agree with the items listed on the accounting records. Discrepancies must be thoroughly investigated and reported to the agency property coordinator. Any necessary write-offs because of missing fixed assets must be documented on a Report of Property Survey (PAMS Form 4).

State policy requires that all state agencies take an inventory of its equipment at least every two years. When we performed our initial review of inventory procedures in March 1994, we noted the department had last inventoried its equipment in fiscal year 1989-90. We notified department personnel of our concern regarding the inventorying of the department's equipment. In June 1994, department personnel initiated an equipment inventory of the department.

In August 1994, based upon our subsequent review of the department's inventory procedures, we noted the department deleted equipment amounting to $430,787 from the state's accounting records. The fiscal year 1993-94 inventory was completed by location. Assets not found at the locations listed on the inventory records were erroneously deleted. The department has undergone several reorganizations that resulted in physical inventory being moved without recording the transfer on the

inventory records. As a result, some of the deletions occurred because the assets were in different locations than shown on the inventory records. The department should have recorded transfers on the inventory records at the time property was physically moved. In addition the department should have fully investigated all assets not found by the physical inventory before deleting the items from the inventory records.

We tested a judgmental sample of fifteen deleted items, each of which cost over $1,000, to determine how many of the deleted items were brought back under accounting control as department personnel had speculated. Only one of the 15 items we tested was deleted from the accounting records with properly documented support. We requested the department investigate to determine what happened to the remaining 14 sample items. Seven of the fourteen deleted items were subsequently found. The agency property coordinator indicated these items should have been brought under accounting control during the inventory process by personnel in the various divisions. As a result, these items were not recorded on the department's equipment listing at the time of our review. The remaining seven of the fourteen deleted items were not found during the investigation by department personnel. Personnel in charge of the equipment were unable to explain what happened to these equipment items.

Since we completed the audit the department continued to investigate the seven items that were not found. According to department personnel they have determined that two of the items were lost, two were located, two of the items were surplused and one item has not been found.

The deleted equipment is comprised of various categories including, the following: personal computers, printers, personal copiers, video recorders, and fax machines. A significant portion of the missing items were personal computers which are susceptible to loss, theft, and misuse.

In addition we noted the following three concerns related to the management of the department's equipment.

- Missing fixed assets were not documented on a Report of Property Survey (PAMS Form 4) as required by state policy. The Report of Property Survey is used to request relief of accountability for lost, stolen, or destroyed equipment. It provides a mechanism to report missing equipment to the appropriate authorities both inside and outside the department. The Report of Property Survey must be approved by an authorized department official certifying the relief of accountability request is true and complete.

- State law also requires that "The head of each state agency shall immediately notify both the attorney general and the legislative auditor in writing upon the discovery of any theft, actual or suspected, involving state money or property under his control or for which he is responsible." We noted at least six items of equipment which were reported to department personnel as stolen but we found no documentation that the stolen items were reported to the attorney general and the legislative auditor as required by state law.

- State policy requires that the PAMS master register and PAMS update reports be kept on file by the department for at least one year. The master register reports are being discarded by the department monthly and the update reports were not available for the period April 1993 to July 1993 when we asked to see them in February 1994.

- We noted that fixed assets purchased between March 1993 and February 1994 at a cost of approximately $368,000 were not recorded on PAMS. State policy also requires that all state fixed assets be recorded on PAMS.

A significant portion (approximately 40.6 percent) of the department's funding comes from federal sources including Unemployment Insurance Benefits (CFDA #17.225), Job Training Partnership Act (CFDA #17.250), and the Employment Services (CFDA #17.207) programs. Based on our review of the department's financial records the majority of acquisitions of equipment are purchased in whole or in part with federal funds. Federal regulations require the department to maintain a control system with adequate safeguards to prevent loss.

Recommendation #7-1

We recommend the department:

A. Attempt to locate missing equipment items and adjust property records accordingly.

B. Establish appropriate control over its equipment.

C. Account for its equipment in accordance with state and federal regulations.

Agency Response #7-1

A. Concur. The department has accounted for the remaining $243,310 ($430,787-$187,477) of questioned equipment deleted from PAMS. Of this total: $125,092 is located within the department and has been reestablished on PAMS; $97,270 has been surplused and supporting documentation is on file; $16,466 is unaccountable and a PAMS 4 has been completed and filed with the appropriate officials; and the remaining $4,482 is two items accounted for twice in the total.

   The $16,466 is comprised of eight items whose acquisition was within the period of March 1976 to April 1988. All of the items are obsolete and were believed to be surplused.

B. Concur. The department has procedures in place to safeguard its assets and recognizes the importance of establishing appropriate control over its equipment. Corrective action has been taken and detailed procedures have been implemented to prevent recurrence.

C. Concur. The department will complete a physical inventory for the period ending December 31, 1995 by June 30, 1996. Additionally, procedures are in place to assure compliance with state and federal regulation.

7-2 Sole Source Vendor

State purchasing regulations require the department to process purchases through the Department of Administration (DofA) Purchasing Bureau when items ordered, individually or in a group of like items on a single requisition, have an estimated total cost in excess of $2,000.

During our audit we noted the department made seven separate purchases between August 1992 and June 1993 each exceeding $2,000 of similar training material from the same vendor. The department did not process these purchases through DofA as required by state purchasing regulations. The purchases totalled $17,848 in fiscal year 1992-93 and $11,196 in fiscal year 1993-94. Department personnel stated the vendor was a sole source vendor for these items.

State regulations require that for sole source purchases over $2,000, DofA must document in writing that a vendor qualifies as a sole source supplier before the department may purchase commodities from the vendor. State regulations also require the department to maintain documentation on sole source purchases since these purchases do not go through the normal competitive bidding process designed to ensure the state pays the most competitive prices for items.

For the purchases discussed above, department personnel indicated that approval was given by DofA, however the department could not provide us with a copy of DofA's written approval that the vendor qualified as a sole source vendor. In addition personnel at DofA could not find or supply us with this approval. As a result, there is no documentation to demonstrate the department is in compliance with state regulations related to sole source vendors.

A portion of the cost of the purchases was federally funded. Office of Management and Budget Circular A-87 states that for federally funded expenditures to be allowable they must be authorized and not prohibited under state laws or regulations. Therefore, we question the allowability of the following federal expenditures:

Catalog of Federal Domestic Assistance	Name	Fiscal Year 1992-93	Fiscal Year 1993-94
10.551 -	USDA Food Stamp Job Search	$ 0	$ 56
10.551 -	Unemployed Parent Program	0	793
17.246 -	JTPA Title III	3,593	38
17.250 -	JTPA Title II	0	161
17.250 -	JTPA W.O.W.	7,128	0
17.225 -	Unemployment Insurance	0	76
93.561 -	JOBS	0	1,514
Total		$10,721	$2,638

Department personnel indicated the department has policies and procedures to ensure compliance with state purchasing regulations; however, they could not explain how the above instances occurred. The department should follow established policies and procedures to ensure compliance with state purchasing laws.

Recommendation #7-2

We recommend the department follow established policies and procedures to ensure compliance with state and federal purchasing laws.

Agency Response #7-2

Concur. The department makes every effort to follow established policies and procedures to ensure compliance with state and federal purchasing laws. All seven purchases referred to under recommendation #7-2 were to one vendor, the Pacific Institute. The department has entered into a contract with the Pacific Institute for the period July 1, 1994 through July 1, 1995 and has prepared the proper sole-source verification as a part of that contract.

Federal Cash Management

As part of our federal compliance testing we determined whether the procedures used for requesting and expending of federal funds is adequate to comply with federal cash management regulations. The following two sections discuss the results of our cash management testing related to the Job Training Partnership Act and Unemployment Insurance Program.

7-3 JTPA Federal Cash Management

We found the pay unit of the Job Service Division does not have adequate procedures in place to minimize cash requested for federal Job Training Partnership Act (CFDA #17.250) funds as required by federal regulations. Office of Management and Budget Circular A-102 requires that agencies' methods for receiving and disbursing federal funds must minimize the time the federal cash is held by the agencies. Noncompliance with the federal standards may result in the loss of federal funds.

According to department personnel, the department can make weekly cash draws and it takes approximately ten working days to receive the federal funds. Based on this schedule, to minimize federal cash on hand as required by federal regulations the department should request the amount of cash it estimates it will spend within ten working days.

We reviewed four months of cash request activity during the audit period and found several instances where the department did not minimize the time that federal cash was held as required by federal regulations. The schedule below summarizes the results of our testing.

Schedule of Findings for Federal Cash Management

Date of Cash Draw	Type of Balance or Transaction Amount	Cash Draws	Cash Availability (in days)[1]
9/01/93	Beginning Balance	$106,073	24
9/01/93	Cash Draw	35,000	32
9/02/93	Cash Draw	50,000	34
10/12/93	Cash Draw	40,000	10
10/25/93	Cash Draw	35,000	2
12/01/93	Beginning Balance	97,686	24
12/07/93	Cash Draw	50,000	33
12/20/93	Cash Draw	50,000	43
12/27/93	Cash Draw	50,000	42
1/11/94	Cash Draw	50,000	34

[1] The number of days of cash availability is calculated based on actual expenditures of federal cash starting at the dates indicated and ending on the date the department's expenditures would have equaled or exceeded the available cash.

Department personnel said for two of the months we reviewed they requested more cash than normal because of employee vacation and department reorganization. Since this problem was brought to the department's attention, department personnel indicated that new procedures have been established to more closely monitor cash needs.

Recommendation #7-3

We recommend the department establish procedures to minimize the time between receipt and transfer of federal funds as required by federal regulations.

Agency Response #7-3

Concur. The following procedures have been implemented to insure compliance with this recommendation:

1. Cash is ordered on a weekly basis, which is as often as Montana Job Training Partnership, Inc. (MJTP) allows.

2. Expenditure and funds available are monitored on a weekly basis to assist in determining the amount of additional funds needed to cover estimated expenditures during the next ordering cycle.

3. Expected costs for the immediate future are estimated based on historical performance and actual unpaid invoices on hand.

4. A back up person is appointed to order funds when the primary person will be absent during the ordering process.

7-4 Unemployment Insurance Cash Management

The agreement between the State of Montana and the U.S. Secretary of the Treasury sets forth the terms and conditions agreed upon to implement the requirements of the federal Cash Management Improvement Act of 1990 (CMIA). The agreement took effect on July 1, 1993. Funds withdrawn from the Department of Labor and Industry's Unemployment Insurance Trust Fund (CFDA #17.225) are subject to the specific requirements of the agreement. The agreement notes the state shall transfer funds to the state benefit payment account based on an estimated check clearance pattern calculated by the department. We noted the department is not using the clearance pattern outlined in the agreement, as shown below.

Estimated Check Clearance Pattern

Days After Check Issuance	Percent of Funds Requested
0	0.0
1	0.0
2	0.0
3	27.6
4	40.7
5	14.3
6	15.1
7	3.3

Source: Cash Management Improvement Act Agreement.

The clearance pattern is an estimate of the time it takes after issuance date for benefit checks to clear the state bank. This estimate is used because it identifies when the benefit payment account must have adequate cash to pay the cashed checks. Department personnel indicated the initial clearance pattern suggested by the department was not accepted by the U.S. Department of Treasury, so they had a limited time to estimate and test a new clearance pattern. The department personnel noted they did not modify procedures to match those established in the 1993-

94 agreement. However, effective July 1, 1994, the department is using the clearance pattern included in the new agreement between the State of Montana and the U.S. Secretary of Treasury for fiscal year 1994-95.

Department personnel noted they believe they could probably draw more funds based on the estimated clearance patterns. The state benefit payment account contains both state and federal funds transferred from the state and federal unemployment accounts, Extended Unemployment Compensation Account (EUCA) and the Federal Employees' Compensation Account (FECA). If more funds were drawn than allowed under the clearance pattern the state may either be liable for interest to the federal government and face the potential loss of federal funds. If less funds were drawn, interest may be due to the state from the U.S. Department of Treasury. As of December 1994 the state has determined that a net payment is due to the state because fewer funds were drawn than allowed by the clearance agreement.

Recommendation #7-4

We recommend the department follow the state's negotiated federal Cash Management Improvement Act agreement as required by federal regulations.

Agency Response #7-4

Concur. We have developed a clearance pattern that will allow us to predict cash needs more accurately. The new clearance pattern, which we are now following, has been approved by the U.S. Department of Treasury. It is consistent with the Cash Management Improvement Act, which went into effect July 1, 1994.

Benefit Automation Rewrite System

The Unemployment Insurance (UI) Division (CFDA #17.225) operates a computerized application, the Benefit Automation Rewrite (BeAR) system that determines monetary and nonmonetary eligibility for unemployment benefit recipients, and tracks amounts paid for the various benefits programs. Input to the system is supplied by local Job Service personnel working with individuals requesting assistance. The system performs various tests to determine if the person is eligible for the requested benefits. If the system indicates a discrepancy, it will prevent benefits from being paid, pending further fact-finding by UI personnel. If no problems are identified by the system, a benefit check is produced electronically and is mailed to the claimant. In fiscal year 1992-93, over $75.5 million in benefits were paid through the BeAR system.

All potential benefit recipients are entered into the BeAR system. The system collects wage information for recipients from the UI Tax system for Montana employers and the INTERNET system for out-of-state employers. The system determines the amount and duration of benefits to be distributed to a recipient and tracks the different types of benefits paid to the individuals during a given period. Information is entered to the system daily at the department and local Job Service offices throughout the state. The newly entered information resides in a transaction file until a nightly batch update job is run. During the batch update, benefit and wage master files in the BeAR system are updated by information from the transaction file.

We conducted an electronic data processing audit of the BeAR system. Overall, we concluded controls over the system are adequate to ensure the accuracy and integrity of data on the system. However, we identified areas where controls could be enhanced to further ensure security and data integrity for the BeAR system. Issues 7-5 and 7-6 discuss our findings from our audit of the BeAR system.

7-5 Access to the BeAR System is not Adequately Controlled

The BeAR system has a separate access security system. The access security system is designed to restrict access to the various "screens." The screens are generated through individual computer programs, and range from initial claim information, input from the UI claim form, to inquiry only screens which summarize claims and payments to an individual. Also, there are several screens which allow correction and update of initial information. Information on the screens includes such things as name, address, social security number, eligibility status, and child support information. Various levels of access are designated for the screens, based on their criticality. Level one, for instance, gives access only to inquiry screens, while level seven gives access to all screens, both inquiry and input. There are presently seven levels of access and access is cumulative. If a person has level six access, for instance, he would have access to the screens specified in level six and would also have access to everything specified in levels one through five.

We reviewed all UI Division employees with the highest levels of access, levels six and seven. Of the 17 tested, 10 needed only level five or lower access. We also interviewed several Job Service personnel with level five access, and found they only needed level three access to perform their job duties. In addition, we tested all personnel outside the UI Benefits Bureau who had access above level one, which is inquiry only, and found 8 of 31 had access over what was required for the performance of their jobs.

Access to information should be restricted to personnel needing that access in the performance of their jobs. Inappropriate access could result in accidental or intentional manipulation of the UI data.

Agency personnel indicated the improper access occurred partly because of employees needing temporary access to certain screens, and the access not being reduced once the need is over. Also, employees may need access to only one screen in an access level, but because of the way the access system is set up, the employees receive access to several additional screens not necessary for their job.

A periodic management review of the access levels given to individuals could prevent improper access from continuing for an extended period of time. In addition, the system security program could be revised to restrict access on a per-screen basis. This was addressed in a previous audit, where the department agreed there was a need for reprogramming the access system, but stated the cost and personnel required in the programming prevented them from following up on it. In 1992, department personnel estimated the cost to reprogram the system to further limit access to be approximately $19,000.

Based on our follow-up during 1995, we found the department has not implemented part B, but has implemented part A of this recommendation as follows. A periodic review of BeAR access is done through the process of annual verification forms which are reviewed and approved by the division managers. The department's original process of internal annual verification was expanded to include the department on the whole.

Recommendation #7-5

We recommend the department:

A. Periodically review BeAR system access given to all individuals.

B. Determine the feasibility of reprogramming the security system to restrict access on a per-screen basis.

Agency Response #7-5
Part A is implemented.

Part B was not implemented because of sparse programming resources. The cost estimate of $19,000 has not changed since 1992.

7-6 Wage Input not Double-Checked for Accuracy

When a claimant works part of his/her base year in another state and subsequently becomes eligible for unemployment insurance, he/she can file a Combined Wage Claim (CWC). This type of claim uses the wages from Montana and the other state(s) to determine the amount of benefits the claimant is entitled to. The wage information from the other state(s) is received at the UI Benefits Bureau via INTERNET, on an IB4 form. The wage information, broken down by employer and wages per quarter, is then input manually to the BeAR system.

We reviewed 12 CWC forms to determine if the information was input accurately and completely, and found one where the information had been input incorrectly. The mistake caused the claimant to receive benefits of $174 per week when he should have received $187 per week. Over the ten week period of eligibility, the claimant was shorted a total of $130. With over 3,000 CWC forms filed annually, the total dollar amount of all input errors could be significant.

Department personnel indicated they have identified other errors where a control of double-checking or verifying the input may have prevented the errors. Personnel indicated with the relatively low number of CWC forms input each year, a double-check procedure would be feasible. However, they have not yet implemented such a procedure.

Based on our follow-up during 1995, we found the department has implemented this recommendation. The department programmed a system which automates the process of inputting CWC information to the BeAR system. The system automatically enters information from the IB4 process, transferred via Internet, to the wage file on the mainframe. Manual input is still necessary if information is rejected due to the department's system edits. This information is double-checked by the system which compares the manually input information with the on-line IB4s.

Recommendation #7-6

We recommend the department implement procedures to verify the accuracy of all CWC information input to the BeAR system.

Agency Response #7-6
Implemented.

Unemployment Insurance Contributions System

Employers are required by federal law to participate in the Unemployment Insurance (UI) program (CFDA 17.225). Individual employers make contributions to the program based on the amount of wages paid, the amount of UI benefits claimed by employees, and relative unemployment history of the occupation. The UI Contributions system, also known as the UI Tax system, is used to help identify those employers required to contribute to the system. It also calculates the rate employers are required to pay, based on information supplied by the employer, and tracks the collection of those taxes. The system resides on the state's IBM 3090 mainframe computer. Information is input by data entry personnel at the Contributions Bureau and is updated during a nightly batch update process.

We performed an application review of the UI Tax system, where we tested input, processing, and output controls. Overall, we concluded the controls in place were adequate and the system was operating effectively to ensure the accuracy and integrity of the data maintained on the system. However, we identified areas where controls could be enhanced to further ensure security and data integrity for the UI Tax system. These issues are discussed in sections 7-7 and 7-8.

7-7 Combined Wage Claim Benefits not Charged Back to Employers

When an unemployment insurance claim is made, and the claimant is receiving benefits entirely from Montana base period wages, the benefits paid are charged back to the employer's account. This information is then used in the calculation of the following years' contribution rates for that employer.

As discussed in section 7-6, employees who earn wages in Montana and then move to another state can claim Unemployment Insurance benefits using the Montana wages in their base wage calculations. The benefits are paid by the state of residency, but Montana must then reimburse that state for its share of benefits paid. This is called a Combined Wage Claim (CWC) and can include two or more states. During our review, we found CWC benefits paid were not allocated to the Montana employer for experience rating purposes.

In order to be equitable in the calculation of employer tax rates, an employer's Unemployment Insurance tax rate is determined in part by the benefits charged to their account since October 1, 1981. Since the CWC benefits are paid by another state, the department does not input the claim into the BeAR system. Therefore, there is no mechanism to allocate CWC benefits to the Montana base period employer for experience rating purposes.

In 1986, the department performed a Benefit Charging Study and estimated there were $2 million in CWC payments that were not allocated to Montana employers in 1985 for experience rating purposes. Another study in 1994 estimated allocable benefits in 1993 to be approximately $978,000.

As a result of CWC payments not being charged back, Montana employers who had claimants move to another state and use the base wages earned in Montana may have been assessed a lower UI tax rate than they would have been charged if the CWC benefits paid out were tracked by Montana. Because of the lower rates for individual employers, the statewide rate would be increased to compensate. In order to calculate the tax rate in a fair and equitable manner, the CWC benefits should be allocated to the individual employer.

Department officials stated the reason these benefits are not charged to the employers is the cost to implement the necessary program changes. At the present time, UI programmers have not set this as a priority. We estimated the programming changes to incorporate the CWC payments into the employer charge-back calculation would take approximately 1100 programmer hours, at a cost of approximately $38,000.

Based on our follow-up during 1995, we found the department has not implemented this recommendation. The department updated its Request For Programming (RFP) and added this request to the pending RFP list. If the department obtains additional automation funding, this RFP may be viable.

Recommendation #7-7

We recommend the department develop a plan to implement programming changes to include CWC benefits in the UI tax rate calculations.

Agency Response #7-7

This recommendation has not been implemented because of limited programming resources and funds. The BeAR automation system is an aging claims system. We currently have 4 programmers dedicated to the system. In the last year they have primarily devoted their time to production recovery, fixing system problems, converting to COBOL II, and programming federally mandated programs such as worker profiling. Next year we face the same situation with requirements for tax withholding on claims and implementing a new performance measurement system. We are going to contract some programming to ease the situation but we do not anticipate being able to implement this recommendation in the near future.

7-8 Changes to Employer Tax Rate Should be Controlled

There are 17 data input screens for the UI Tax system which allow various data fields, such as name, address, employer number, tax rate and employer status to be updated. The individual employer tax rate can be changed on three of these screens, the E-4 Rating Entry screen, the CH Change Entry screen, and the E-1 Status Entry screen. Over 20 UI employees have access to these screens, which gives them access to change the tax rate. Department personnel indicated only three people, all in the Contributions Bureau, ever have any need to change the tax rate and access could be restricted to those three people.

The ability to change the tax rate by people who are not authorized to make the changes could result in intentional or accidental changes to the rates and result in incorrect taxes being charged to the employers. As a compensating control, a "Rate Discrepancy Report" is printed by the system and distributed to contributions personnel for review. However, the report is not retained for future reference.

Since the UI Tax system is in the process of being rewritten, the department should consider restricting the ability to change rates to only authorized personnel. Authorized changes to the rates are recorded and filed in the employer's file. In order to ensure all changes are authorized, however, the rate discrepancy report should be reviewed and retained for a specified period of time, such as six months to a year.

Based on our follow-up during 1995, the department has partially implemented part A and has not implemented part B of the following recommendation. When the department implemented the MAC system they were able to restrict write access to the employer tax rate screens to three people in the experience rating unit. However, two programmers also have write access to the tax rate screens. Department personnel state that programmers need access to recreate transactions if there is a problem. If access is judged necessary, programmers should be given access on an "as needed" basis and should be restricted to specific periods of time.

The department has not retained the rate discrepancy reports. The reports were discarded after review. Department personnel indicated a policy is in place to retain the reports, but the individuals responsible for the reports were not informed of the policy.

Recommendation #7-8

We recommend the department:

A. Ensure only authorized personnel have access to change employer tax rates.

B. Retain the rate discrepancy reports for a specified period of time.

Agency Response #7-8

A. We concur with limited access. However, programmers need write access to the programming screens. If a job should fail to process correctly at night, the programmers need to be able to immediately step in to perform production recovery. If they do not have write access to the program with a problem, they would not be able to fix the problem without calling in someone else to come in and provide the correct access. Without access to the production files, the programmers would not have been able to accomplish any of those functions. This would delay the recovery of the system and consequently, the ability for the Contributions Bureau staff to do their daily work.

There are other safeguards built into the computer system, i.e. on-line update log, rate discrepancy list, rating maintenance lists, that would hinder or prevent security problems from occurring.

B. Concur. A rate discrepancy list is now produced off the new tax computer system. The list is reviewed daily to assure correct rate assignment and input. The rate discrepancy list was not initially retained when the system came on-line, but is currently being retained and will be kept for three years.

8-1 Required Levels of Expenditures

The Montana Legislature has assigned the Office of the Commissioner of Higher Education (office) as the sole state agency responsible for the administration of the federal Carl Perkins Vocational Education Grant (CFDA #84.048). The objectives of this grant are to assist the state in providing quality vocational education programs and ensure accessibility of the programs to all qualified people.

Federal regulations require a state receiving Carl Perkins funds to maintain the level of vocational education expenditures each year from state sources equal to the previous year. The expenditure level may be determined on a per student basis or on a basis of aggregate expenditures of funds from state sources. In fiscal year 1993-94 the state did not meet the required level of expenditures.

If the state does not meet the required expenditure level, continued federal funding for the Perkins Vocational Education grants may be in jeopardy. Agency personnel indicated lower levels of funding by the legislature make compliance difficult. In addition, the state's levels of expenditures in previous years were in excess of the amount required. Federal regulations require the state to continue spending at the level set in the year an excess was reported. As a result, personnel said, meeting the previous years level of support has become increasingly difficult.

Office management said it sought guidance from the U.S. Department of Education as to whether to report all effort in an unusual peak year. By revising effort reported for fiscal year 1991-92, such a peak year, the office could put the state in compliance with the required level of expenditure standard in subsequent years. Although the office requested guidance two years ago, the department has not yet responded.

Recommendation #8-1

We recommend the office comply with federal regulations concerning the level of state vocational education expenditures for the Carl Perkins program.

Agency Response #8-1

We will continue to try to get a definitive answer from the Department of Education concerning the reporting of peak year's efforts. The response to that question is necessary before we know whether we need to pursue options for remaining in compliance with federal regulations concerning maintenance of effort.

Student Financial Aid

We reviewed the university's and the MSU College of Technology - Great Falls' administration of federally sponsored student financial aid programs. The following two sections discuss issues related to these programs.

9-1 Perkins Loan Program Collection Fees

The university participates in the Perkins revolving loan program (CFDA #84.038) to provide college students with financial aid. Loans are repaid directly to the school and the outstanding loan principal is a university asset. The university operates the Perkins loan program with a single officer. The officer's responsibilities include maintaining the school's collection efforts, assisting students and graduates with questions, performing exit interviews, and submitting loans for assignment.

Federal guidelines issued for the Perkins loan program require the university to proceed with collection efforts when borrowers are in default. Default is defined as "the failure of a borrower to make an installment payment when due or to comply with other terms of the promissory note or written repayment agreement." As a part of the collection process the borrower must be assessed all reasonable collection costs. Federal regulations require the university to determine reasonable collection costs based on actual costs incurred for each borrower or on average costs incurred in collecting loans in similar stages of default. The lower of reasonable collection costs or 30 percent of the total principal, interest, and late charges assessed may be charged to the Perkins loan program fund if the school is unable to collect from the borrower.

The Perkins loan officer at the university makes the first collection efforts for defaulted loans. The university has not determined a reasonable collection cost for its Perkins loans and therefore, does not charge the borrower for collection costs. We identified 1,287 Perkins loan borrowers in default status at June 30, 1995. The total principal outstanding on defaulted loans was $2,223,880. After we brought this issue to their attention, university officials estimated their collection costs to be approximately $2 per month, or $24 per year, per borrower. Applying this estimate to the

number of borrowers in default at June 30, 1995, would yield $30,880 in collection costs. Although it is unlikely the university would receive all assessed collection costs, it is reasonable to expect that some assessments would be collected.

Currently, the Perkins loan officer spends the majority of her time working with borrowers recently in default, as these collection efforts are more successful and less time consuming. The collection cost assessments could be used to finance additional collection efforts on older loans. Greater collections of defaulted loans increases the pool of loan funds available to current and prospective students.

The university does not charge collection costs because, according to university personnel, if the borrower is having difficulty making payments, additional costs would decrease the likelihood of collection. In addition, the university does not charge the Perkins program for collection costs because to do so would decrease the loan funds available for students. The university currently absorbs these costs within its operating budget.

Recommendation #9-1

We recommend the university assess borrowers in default on their Perkins loans reasonable collection costs in accordance with federal regulations.

Agency Response #9-1

We concur. The university will determine a reasonable collection cost and assess borrowers in accordance with federal regulations.

9-2 Student Financial Assistance Awards

The MSU College of Technology - Great Falls (college) participates in federal student financial assistance programs. As a participating institution, the college is responsible for documenting student eligibility and calculating allowable aid amounts. We noted the following items as we reviewed the college's system for disbursing U.S. Department of Education Federal PELL Grant Program (CFDA #84.063) awards.

The college did not complete fiscal years 1992-93 and 1993-94 reconciliations between its accounting records, the federal award summary and its student aid reporting system until fiscal year 1994-95. The differences between these systems ranged from $3,000 to $7,000. Had the college performed a timely reconciliation prior to the close of the specific award year, it could have resolved some of the issues discussed below.

Federal regulations require the college to maintain specific documentation to determine a student's level of eligibility. We reviewed a sample of student financial aid files for fiscal years 1992-93, 1993-94, and 1994-95. We noted incidents where the college did not comply with specific federal regulations.

- To be eligible for student financial aid, a student completes an application for assistance which is submitted to the federal government's processing center. Based on the information on the application the processing center compiles a Student Aid Report (SAR), stating the student's level of eligibility. The federal government requires an institution to verify the information contained on the SAR for 30 percent of its students. We noted one student whose information was not verified although the student had been selected for verification. Lack of verification caused the student to receive an overaward.

- Federal regulations require the student to sign specific statements contained on the SAR prior to receiving the financial aid or by the end of the semester in which aid was received. We noted seven student files which did not contain the SAR or documentation the students signed the required statements.

- Federal regulations require the institution ensure its students make satisfactory progress (i.e. 2.00 GPA) or place the student on financial aid probation. We noted two students who had not met the satisfactory progress requirement and should not have received financial aid.

- The institution determines the award amount based on an index provided by U.S. Department of Education for the specific award year. We noted one student received an award in excess of the maximum amount available for that award year.

As a result of the above items, the college overawarded students $2,042 in fiscal year 1992-93, $10,216 in fiscal year 1993-94, and

$18,429 in fiscal year 1994-95. Because the students were not eligible for this financial aid, these awards are unallowable charges to the Pell program and we question these costs.

In addition to our review, the U.S. Department of Education completed a program review in February 1995. This review covered fiscal years 1992-93, 1993-94, and 1994-95 and noted problems similar to those we identified.

College officials stated many of these problems were a result of inadequate staffing in the financial aid office. Prior to March 1995 the college had a staff of one in its financial aid office. In March the college increased the number of staff in its financial aid office to two. College officials believe the additional staff resources will prevent the problems discussed above from occurring in the future.

College and university officials should review controls over the student financial aid award process at the college and ensure all federal requirements have been met prior to distributing financial aid awards. The college should also reconcile its accounting records, federal award summary and student aid reporting summary on a timely basis.

Recommendation #9-2

We recommend the university:

A. Complete timely reconciliations of the college's accounting records, federal award summary, and student aid reporting summary.

B. Establish procedures to ensure federal regulations are met prior to the college disbursing financial aid awards.

Agency Response #9-2

A. **We concur.** The financial aid office, in conjunction with the business office, is conducting timely reconciliations of the

respective accounting, financial aid and federal aid program records.

B. **We concur.** The financial aid office has adopted a double check mechanism to ensure federal regulations are met prior to disbursing financial aid awards.

9-3 Unallowable Costs Charged to Federal Programs

All accounting transactions pertaining to grants and contracts other than Extension Service and Financial Aid are routed through the Grants and Contracts Office. This gives accountants familiar with the individual projects and the rules and regulations applicable to them the opportunity to review all transactions before they are processed. We reviewed 57 randomly selected transactions (totalling over $13,114) routed through this office and found the following questioned costs.

- The university purchased a $25 personal membership in a professional organization with grant funds (Wetlands Protection - State Development Grants, CFDA #66.461). OMB Circular A-21 states that costs of goods and services for personal use of the institution's employees are unallowable.

- The university paid $75 for a computer information service from a grant restricted to travel expenses only (International Agricultural Research Program, CFDA #10.961). OMB Circular A-21 requires costs allocated to the sponsored agreement to be allowable charges.

Grants and Contracts personnel said these unallowable costs are the type which are usually detected during their transaction review. We observed copies of letters in other files where unallowable costs had been rejected. The Grants and Contracts Office policy manual includes instructions for principal investigators (the individuals having direct responsibility for completing grant projects) on reviewing transactions. The office should consider adding the restrictions of Circular A-21 to this policy as a means of alerting grant administrators to reject these unallowable costs prior to routing them through the Grants and Contracts Office.

Recommendation #9-3

We recommend the university provide access to OMB Circular A-21 to grant administrators for identifying costs prohibited by federal regulations.

Agency Response #9-3

We concur. The University Principal Investigator's Manual will be updated to include OMB Circular A-21 as an attachment.

9-4 Miscellaneous Travel Expenses

Many university employees travel to perform some of their duties. State laws and policies and university policies describe allowable travel expenses. Allowable travel expenses include lodging, meals and miscellaneous business expenses associated with travel. To ensure the validity of significant miscellaneous expenses, state and university policies provide that individual expense items of $10 or more per day must be supported by paid receipts. All miscellaneous expenses must be explained on a travel expense voucher. Examples of allowable miscellaneous expenses include needed work supplies purchased on an emergency basis, taxi fares, and business telephone calls. Tips and taxes are not reimbursable miscellaneous expenses.

We reviewed travel claims for individuals within three university departments. Almost all of these claims included requests for reimbursement of miscellaneous expenses at the rate of $9.99 per day of travel. Few of the claims documented the purpose of the miscellaneous expenses as required by policy. When asked why they were claiming $9.99 each day of their travel assignments, individuals responded that this was an accepted practice in their departments and these moneys were used to supplement per diem allowances, provide for tips, and cover other items such as unreceipted taxi and phone charges. Many of the travel claims reviewed were related to federal assistance programs. By requesting reimbursement for unsupported, undocumented miscellaneous expenses, employees overcharged university programs by a total of $759, of which $370 was charged to the

Highway Planning and Construction Program (CFDA #20.205) and $100 to the Grants for Agricultural Research, Special Research Grants Program (CFDA #10.200). The affected programs are within the U.S. Departments of Transportation and Agriculture. We question these costs as they are unsupported charges to the federal programs.

University management responded promptly when we brought this issue to their attention. The internal auditor contacted each of the affected departments directly to remind them of the travel policies and requested responses to the findings. The university controller sent a campus-wide communication to remind all travel claims processors of the travel policies. The university should also consider assigning responsibility for periodically reviewing travel claims for compliance with travel regulations. We believe the university can accomplish such a review using existing resources within the departments, Internal Audit and/or the Business Office. In addition, the university should seek reimbursement from the employees for the unsupported travel expenses.

Recommendation #9-4

We recommend the university:

A. Require appropriate documentation supporting miscellaneous travel expenses.

B. Seek reimbursement from employees for unsupported miscellaneous travel expenses.

Agency Response #9-4

A. We concur. Staff members have been reminded of the need for acceptable documentation supporting miscellaneous travel expenses. Periodic reviews are being conducted to insure compliance.

B. We concur. Reimbursement has been requested from employees for unsupported travel expenses.

Montana State University - Northern

10-1 Ineffective Internal Control Environment

MSU-Northern's responsibilities include establishing and maintaining adequate systems of internal control. The objective of a system of internal control is to provide management with reasonable, but not absolute, assurance that resource use is consistent with laws, regulations, and policies; resources are safeguarded; and reliable data is obtained, maintained, and disclosed. Because of inherent limitations in any system of internal controls, errors or irregularities may occur and not be detected. However, a good system of internal control reduces the risk of such errors or irregularities.

MSU-Northern at Great Falls (center) is an extension of MSU-Northern at Havre. While reviewing the activities of the center, we determined one individual has the responsibility to perform functions that are not appropriate for an effective internal control system. A center employee is in a position to circumvent the controls and, in fact, did so. The following paragraphs discuss the issues we found.

Registration System

As part of their regular duties, a center employee has unsupervised control over registration information and registers students for credit-hours enrolled in Great Falls. Using this control, the individual pre-registered as a full-time student taking 12 credit-hours. Student fees are automatically assessed based on per-credit-hour enrolled. A student enrolled for 12 credit-hours is assessed a fee of $1,546. Based on the number of credit-hours enrolled and employment status at the center, the individual applied for and received a student fee waiver of $666. This reduced the individual's student fee liability to $880. However, the individual inappropriately accessed the center's fee information and reduced their fee assessment to $354.45 indicating 9 credit-hours on their receipt.

Subsequently, the individual inappropriately accessed the computer registration file and changed enrollment status. Up to a given date, a student may formally drop classes by providing written notification to the registrar. This eliminates all record of the class from a student's transcript. However, after this deadline had passed, the

individual discussed above accessed registration information, reduced their credit load to 3 credit-hours, and cancelled the remaining credit-hours. Normally if a class is dropped after the deadline, the registration system classifies the status as a withdrawal and the student forfeits the fees for the credit-hours. A cancellation, on the other hand, allows for a refund of fees. Due to the timing of the change in credit-hours, as discussed below, the individual did not receive a refund. In addition, for the 1995-96 fall semester, the last day for a student to drop a class and receive a withdrawal status rather than an incomplete or fail status was November 5, 1995. As directed by MSU-Northern personnel, the individual changed their class status for the 9 credit-hours back to a withdrawal status, on November 6, 1995, overriding the previous change.

A student fee check is performed by personnel at MSU-Northern following the last day available to add/drop classes. Enrollment information is compared to the fees actually collected by the business office. Although the fee check procedure is an important control, the timing of inappropriate changes to student information could circumvent the control. An inappropriate manual override of registration information, negates the effectiveness of the fee check by eliminating the historical trail. The timing of this individual's change from 12 to 3 credit-hours occurred after the fee check and the individual has been billed for the remaining $525.55 in student fees owed for 12 credit-hours.

The original 12 credit-hour enrollment for the student discussed above supported a request for financial aid of $4,334. The individual received two Stafford Loan (CFDA #84.032) disbursements, net of the $354.45 fee assessment and a processing fee, totalling $3,807. A student enrolled for 3 credit-hours is not eligible for financial aid. Federal regulations declare a student who receives a federal Stafford Loan and attends less than half-time ineligible and any disbursements must be repaid in full immediately. The responsibility to return the loan proceeds is either the school's, the student's or both depending upon the student's registration status. Because the individual never attended the classes for which the financial aid was awarded, the individual was ineligible for the $4,334 in financial aid already received.

Controls Over Cash

The same center employee is also the custodian of the cash maintained at the center. The individual initiates transactions from the cash accounts, performs the cashiering functions of the office, is responsible for counting, reconciling, and replenishing the cash accounts, preparing the deposits and taking the deposits to the bank.

The individual is responsible for collecting student fees, accessing and recording the collection on the receipting system, reconciling receipt of cash, and preparing and delivering the deposits to the bank.

Even if a complete separation of functions is not possible, certain specific duties can be separated among the available personnel to achieve the strongest control possible under the circumstances. For example, reconciliations of the receipting system and cash accounts should be performed by someone other than the person responsible for preparing the deposit. This review should be documented by a signature and date.

Summary

The center lacks an adequate system of internal control. MSU-Northern should establish a control system which includes, but is not limited to adequately segregating duties of personnel responsible for recordkeeping, authorization, operations, and custodianship. Center personnel noted there is limited staff available to adequately segregate functions. However, if duties were allocated differently between existing staff, controls could be improved. Management should ensure the system is implemented through adequate supervision and review.

Due to the inadequate internal control system at the center and the repercussions resulting from the weaknesses in the system, we referred the information we gathered to the Attorney General's and Governor's Offices in accordance with section 5-13-304(4), MCA. We also question $4,334 in financial aid disbursements for an ineligible student and recommend immediate payback as required by federal law.

Recommendation #10-1

We recommend MSU-Northern:

A. **Adequately segregate duties of center personnel responsible for recordkeeping, authorization, operations, and custodianship.**

B. **Seek prompt repayment of $4,334 in financial aid, in accordance with federal regulations.**

Agency Response #10-1

A. **We concur.** MSU-Northern is committed to the resolution of any and all internal control problems at the Great Falls Center. Additional internal controls are being developed and implemented at the Havre and Great Falls campuses to strengthen the overall internal controls at the Center. Additional internal controls include limits on computer access, documented procedures, segregation of duties, and additional supervision.

B. **We concur.** A plan for repayment of $4,334 in financial aid has been worked out with the employee and will be completed by February 29, 1996.

11-1 Federal Surplus Property Donation Program

The objective of the federal Surplus Property Donation Program is to distribute federal surplus property to state and local public agencies and certain qualified nonprofit, tax-exempt entities. The department's Property and Supply Bureau manages this federal program (CFDA #39.003). Potential donees file applications to participate in the program. The bureau determines donee eligibility according to federal program guidelines. The eligible donees submit information on the types of items they want or need. The bureau compiles this information into a want list. Bureau personnel travel to military bases to review or physically screen property and complete a request to hold property they may want. Bureau personnel also perform a "paper screen" by reviewing lists of available property.

The bureau is responsible for ensuring the property is properly controlled and warehoused while in storage. The bureau distributes the property to eligible donees and ensures donees comply with donation provisions. The bureau attempts to recover its operating costs by charging fees to donees.

The bureau is required to file quarterly reports to the U.S. General Services Administration (GSA). For reporting purposes, federal surplus property is valued at the original federal acquisition cost. The department reported receiving property valued at $3,692,180 and $3,774,413 in fiscal years 1993-94 and 1994-95, respectively.

We could not determine the reasonableness of the amounts reported to GSA. This same problem was noted in our prior audit report for the two fiscal years ended June 30, 1993. The department has not fully implemented the recommendation in our prior report to establish procedures to accurately account for and report the amount of federal surplus property received and on hand.

During the audit period, the department did not routinely reconcile the amounts reported to GSA to the bureau's accounting system and investigate differences. For example, at June 30, 1994, the inventory amount reported to GSA was $4,118,403. The amount in the accounting records, based on a physical count, was $2,012,888. Because the inventory amounts do not agree, the

related fiscal year 1993-94 amounts for property received and property donated are misstated by undetermined amounts. It was not practical for us to determine the actual misstatements. Bureau personnel explained the amounts reported to GSA were determined by adding the original acquisition amount of all the items requested on the transfer order forms. As noted in our prior report, this method of computing the amount of property received can cause errors on the quarterly reports because the transfer orders may not include items received which were not ordered, may include items not received, and do not document the dates items were received.

If the bureau receives property that is in excess of donees needs, it may, subject to federal approval, auction any property that has been on hand over six months and retain a percentage of the auction proceeds. We reviewed and recalculated support for items reported as auctioned in September 1993, 1994 and 1995. We could not tie the support to the amounts reported to GSA. The unsupported differences for the auctions were $104,411, $391,133, and $(285), respectively.

We notified department officials of our concerns in May 1995. Department officials agreed they were unable to reconcile the differences noted. In order to correct the problems they did a physical inventory on June 28, 1995 to provide a starting point where the physical inventory, the bureau accounting system inventory amount, and the inventory reported to the federal government all agree. Based on the June 28, 1995 inventory, the bureau made a $1,635,834 adjustment to the inventory amount reported to GSA. The inventory adjustment also indicates the property received and/or donated as reported to GSA for fiscal year 1994-95 is also misstated by an undetermined amount. It was not practical for us to determine the actual misstatement.

In response to our prior audit recommendation and concerns noted in our current audit, the bureau began making improvements in its accounting and reporting procedures. The department reviewed bureau operations and changed the procedures used to record items received. Documentation procedures were refined and the property acquisition information was automated. The department should continue to establish and improve procedures to accurately control and report federal surplus property activity.

Recommendation #11-1

We recommend the department continue to improve procedures to accurately control and report federal surplus property activity.

Agency Response #11-1

We concur. In the past, the Property and Supply Bureau has had difficulty reconciling acquisition value on its subsystem to acquisition value on the Federal 3040 Report because of timing differences and system errors. However, the Bureau has developed written procedures to improve the reconciliation process and made enhancements to the system to improve its accuracy. The procedures require that any adjustment made to the quarterly Federal 3040 Report be reconciled to the subsystem and written documentation for any adjustments be provided. The Federal 3040 Report will be reviewed internally to ensure the procedures are being followed.

12-1 Federal Cash Management

The agreement between the state of Montana and the U.S. Secretary of the Treasury sets forth the terms and conditions agreed to by the state of Montana and the federal government to implement the requirements of the federal Cash Management Improvement Act of 1990 (CMIA). The agreement with the state of Montana took effect on July 1, 1993. The department received funding from the U.S. Department of Agriculture for its Child and Adult Care Food Program (CFDA #10.558). Beginning in fiscal year 1994-95, the Child and Adult Care Food Program is included under the state's CMIA agreement. To comply with the CMIA agreement, the department must draw funds based on the required three day warrant clearance pattern established by the Department of Administration. The clearance pattern is an estimate of the amount of time required for warrants to clear the bank. By drawing funds in accordance with the established clearance pattern, the department can ensure federal cash is appropriately managed.

We reviewed the department's procedures for requesting federal funds in accordance with the CMIA agreement. For the first three months in calendar year 1995, we determined the department established a system to draw the federal funds in accordance with the CMIA warrant clearance pattern. For the months we reviewed, we noted six instances where the system the department established was not followed and federal cash was requested from one to three days late with amounts ranging from $1,407 to $405,055.

According to department personnel, in April 1995, federal personnel were in Helena and reviewed the cash draw spreadsheets completed by the department. Based on this review, federal personnel incorrectly determined the department was drawing federal funds earlier than allowed by the CMIA. In response to the federal review, the department changed the system used from the CMIA agreement clearance pattern, which was three days, to four days. The change made by the department resulted in the department drawing one day later than required by the CMIA agreement for the last three months of fiscal year 1994-95.

By not drawing federal funds as soon as allowed, the department uses state funds until the federal funds are drawn and received. This results in lost interest to the state, since these funds would otherwise be invested.

The Department of Administration is required to complete the annual interest calculation report for the state of Montana. The Department of Administration obtains daily cash balances, warrants issued, and federal cash draws for each fiscal year from monthly spreadsheets prepared by the Department of Health and Environmental Sciences (DHES). DHES was unable to locate the spreadsheets for the first six months of fiscal year 1994-95. As a result, the Department of Administration is unable to verify compliance with the CMIA agreement. Federal regulations require records be retained by the department for a minimum of three years.

Recommendation #12-1

We recommend DPHHS:

A. Comply with cash draw requirements in the Cash Management Improvement Act agreement for the Child and Adult Care Food Program.

B. Ensure automated files supporting Child and Adult Care Food Program cash draws are maintained for three years in accordance with federal regulations.

Agency Response #12-1

The Department of Public Health and Human Services is now drawing cash for the Child and Adult Care Food Program in compliance with CMIA, and the supporting documentation will be maintained for three years.

12-2 Federal Reporting

Federal regulations require the department to submit a final financial status report for the Child and Adult Care Food Program (CFDA #10.558) within 120 days after the end of the federal fiscal year. This report is compiled using financial information from the state's accounting system. The department is also required to submit a report on the Child and Adult Care Food Program for each month of operation to document the number of meals served in institutions under the department's oversight. This report is compiled by the department using information from its computer system.

The department submitted these reports in accordance with the federal requirements. However, when the federal government compared the information contained in the two reports there were discrepancies. According to department personnel, manual adjustments were made which were not reflected on the internal computer system; however, these adjustments were recorded on the state's accounting system.

The U.S. Department of Agriculture accepted the reports; however, they only authorized payment of the lower amount from the reports. Department personnel stated the federal government uses the lowest amount from each report in determining the funding the state will receive. As a result of the discrepancies, the state was authorized approximately $50,000 less than expended in federal fiscal year 1993-94.

The U.S. Department of Agriculture allows the state to submit a modification report which will increase the state's authorized amount. Department personnel are currently working on resolving the discrepancies and submitting the modified report. As of January 23, 1996, the department had not resubmitted the required report. If the department does not submit the required report approximately $50,000 of state funds will be needed to pay these costs.

Recommendation #12-2

We recommend DPHHS continue to resolve the discrepancies and ensure future reports submitted to the federal government for the Child and Adult Care Food Program contain consistent and accurate information.

Agency Response #12-2

The modification report was submitted on January 31, 1996 in the SNIIPS (State Nutrient Integrated Information System). Future reports will be compared to ensure consistent data are provided.

Federal Compliance

During fiscal years 1993-94 and 1994-95, the department received approximately $5,800,000 and $9,200,000 of federal financial assistance, respectively. The following sections discuss areas where the department can improve its compliance with federal laws and regulations as well as improve the recording of federal grant activity.

Federal Emergency Management Agency Grant

The Little Wolf fire started in Northwest Montana on August 14, 1994 and ended September 13, 1994. The fire occurred on both federal and state fire-protected land. Whenever a fire occurs on both state and federal land protection, the U.S. Forest Service and the department determine the percentage of the fire fighting costs each agency is responsible for based on the percent of land burned.

On August 17, 1994, the Federal Emergency Management Agency (FEMA) declared the fire an emergency when it became a threat to a populated area. As long as there was a threat to a populated area, FEMA funds were available to reimburse the state for its share of fire fighting costs. Although the fire continued to burn until September 13, 1994, FEMA declared the fire threat to populated areas over on September 3, 1994, and FEMA financial support ended on that date. Consequently, except for mobilization, demobilization, and certain administrative costs, the federal government agreed to reimburse the state for fire fighting costs incurred on the Little Wolf fire between August 17 and September 3, 1994. This period is generally referred to as the incident period.

It cost approximately $8.8 million to fight the Little Wolf fire. Since approximately 31.3 percent of the fire occurred on state fire-protected land, the state is responsible for paying 31.3 percent of the total direct fire fighting cost. In addition, the department incurred an estimated $396,000 of indirect and administrative costs attributable to the Little Wolf fire. The department estimates that 80 percent of the fire costs occurred during the FEMA incident period.

Department of Natural Resources and Conservation (formerly Department of State Lands)

13-1 Cost Allowability and Grant Close-Out

The Little Wolf fire ended more the sixteen months ago and the department has been unable to calculate the total allowable cost for FEMA. FEMA regulations require the department to file a final report within 90 days after the incident. Although FEMA unofficially granted the department an exception, timely reporting is important.

The longer it takes to complete a final accounting for the fire, the more difficult the process becomes. Key personnel who were responsible for significant aspects of the fire management may no longer be available to answer questions. Staff's ability to remember important details becomes more difficult as time passes.

Personnel at the Forestry Division could not fully explain how the department estimated $2.5 million of direct fire expenditures, incurred during the incident period and claimed for FEMA reimbursement. According to the personnel, the department hired a retired employee to account for the costs of the Little Wolf fire and document the support necessary for FEMA reimbursement. However, the retiree is currently out of the state and could not be easily reached to explain his accounting procedures. The following paragraphs describe concerns we noted during our audit of the fire costs.

- The department revised its cost estimates based on review of actual invoices. We reviewed ten of the revisions and determined two of the revisions were not supported. We also were unable to obtain the support for two other revisions.

- Since rehabilitation costs are not allowable charges for FEMA, the department is backing these costs out of their estimates. The rehabilitation costs are estimates based on shift reports from the fire. Based on our review of the shift reports, this estimate should be $91,280, but the department only reduced its estimates by $85,258. The department was unable to provide support documentation for the revisions.

- Costs incurred for fire mobilization and demobilization are allowable charges to the FEMA grant even if they occurred outside the incident period. The department estimated these costs based on shift reports, demobilization logs, and actual bills. One of the costs included was a bill from a travel

agency that handled all the transportation plans. One of the bills from the travel agency does not support the amount claimed. We noted also the cost of two buses used to transport fire fighters was not included in the demobilization cost estimate.

Since the department is continuing to revise its calculation of the Little Wolf fire cost and it has not submitted a final claim to FEMA, we do not question the allowability of these costs. The department should organize its support documentation, determine the amount to be claimed, and submit documentation to FEMA to finalize the grant (CFDA #83.516).

Recommendation #13-1

We recommend DNRC:

A. Ensure all FEMA fire costs claimed are properly supported.

B. Finalize its FEMA grant for the Little Wolf fire as required by federal regulations.

Agency Response #13-1

A. Concur. The 1994 wildfire season in Montana was the most severe of any summer on record. The scope and level of fire suppression actions far exceeded the capability of the federal accounting systems to document and track costs. As a result of this overload, it has taken until February, 1996 for the federal government to collect, sort and allocate costs related to cost-share fires from the 1994 fire season. In the interim, with the permission of FEMA, we operated on estimates based on the Forest Service's Incident Cost Accounting and Reporting System (ICARS). As actual costs became available, we subsequently revised our estimates. In February, 1996, we reached final agreement with the Forest Service on the proper allocation of costs on all cost-share fires, including those for which we received a FEMA grant.

B. Concur. We are now in the process of finalizing our FEMA grant for the Little Wolf fire. We could not do so earlier because we were still working with the Forest Service to determine the state's share of the fire costs. As noted in part A above, this took far longer than we would normally expect. Now that we have a final figure for the state's share of the fire suppression costs, we are finalizing our grant with FEMA.

13-2 Helicopter Maintenance Costs

Helicopter maintenance costs are usually paid with funds from the department's Air Operations Section. Maintenance, along with other variable costs of operations, are accumulated and recovered by the department through an aircraft hourly use rate. Prior to the 94-95 biennium, the Air Operations Section received money from the General Fund to pay fixed costs such as rent and insurance. During the 94-95 biennium, the Air Operations Section recovered fixed costs through the hourly use rate; but department personnel indicated, due to a change in funding, the section became short of cash needed for operations.

In the summer and fall of 1994, the Air Operations Section incurred helicopter maintenance costs of $83,071. Section personnel indicated, because there was a cash shortage in the air operations account, the maintenance costs were charged to the five largest fires in fiscal year 1994-95. Three of the five largest fires, including the Little Wolf fire, were fires where costs were shared with the U.S. Forest Service. The department and the U.S. Forest Service split the costs based on the percentage of state protected land burned versus Forest Service protected land.

Federal regulations require that only reasonable and necessary costs be charged to federal programs or grants. Since the cost of aircraft, including maintenance costs, are charged to forest fires based on an hourly use rate, it is not reasonable to charge this cost to the fire a second time. Since the department allocated $55,536 of maintenance costs to these cost share fires, the state's share of costs was inflated and the department overcharged and should repay the U.S. Forest Service approximately $31,174. In addition, we question $37,450 in helicopter cost charged to the FEMA grant (CFDA #83.516). Because of these errors, the cost of the Air

Operations Section is understated on the state's accounting records in fiscal year 1994-95. This situation could have been avoided if the Section would have obtained an inter-entity loan to replenish cash and/or requested a supplemental General Fund appropriation.

Recommendation #13-2

We recommend DNRC ensure helicopter maintenance costs are properly allocated to forest fires.

Agency Response #13-2
Concur. We have corrected the error by removing all routine maintenance costs for helicopters from our bills to federal agencies and from our FEMA grant for the 1994 fire season. We have also taken steps to ensure that this error will not recur in future years.

13-3 Urban Forestry Grant

In fiscal year 1994-95, the department received $174,500 from the U.S. Forest Service for an Urban Forestry grant. The purposes of the grant are to increase public awareness of the importance of community forests, and to make technical advice available to communities. The U.S. Forest Service requires that only costs for projects approved in the grant agreement are allowable. Department personnel indicated they decided to put a picture of an urban forest on a Missoula public transit bus to increase public awareness of the program. The cost of the project was approximately $22,153. This project was not authorized in the grant agreement. The approved projects listed to accomplish the public awareness goal are: a newsletter; a marketing program; coordinating poster contests; Montana Community Forestry awards; and participation in Arbor Day.

In addition, department personnel did not comply with state or department purchasing policies when they contracted to have the picture put on the bus. State policy requires the department to obtain the approval of the Department of Administration

Purchasing Bureau on all individual purchases which exceed $10,000. Department policy requires that its Central Management Division approve all purchase contracts which exceed $2,000. According to Federal regulations, expenditures which are not made in accordance the state's internal regulations are unallowable.

Department personnel indicated that when they read the grant agreement, they did not see where it disallowed this type of project. However, the grant transmittal letter specifically limits the grant to approved projects. Based on this, we question $22,153 of expenditures under the Urban Forestry grant (CFDA #10.664).

Program Income

As part of the contract with the artist who created the picture, the department also received 125 prints and 450 posters of the artist's picture. The department sells these posters and prints to help raise money for the Urban Forestry program. Federal regulations require all income derived from the grant be used to reduce the Forest Service's contribution to the program. The regulation also allows the department to request the U.S. Forest Service to increase the federal grant by the amount of income received.

In fiscal year 1995-96, the department recorded this income, amounting to $2,200 in the state Special Revenue Fund as donations. Department personnel indicated that they intend to seek state appropriation authority to perform additional activities that accomplish the goals outlined by the grant agreement. To comply with federal regulations, the department should record this income as revenue in the federal grant account of the federal Special Revenue Fund instead of the state Special Revenue Fund. If it plans to use the additional funds on the Urban Forestry program or other activities, the department should obtain approval from the Forest Service.

Sale of Sponsorships

The department is working to offset the costs of the putting the picture on the bus by selling sponsorships. Each sponsor is entitled to two prints, five posters, the sponsors name on the bus, and a newspaper advertisement. Since the benefits the sponsors receive are purchased with grant funds, moneys received from the sale of sponsorships are program income and must be placed in the federal grant account.

As of December 31, 1995, the department had sold four sponsorships for $2,500 each. Sponsors may elect to pay this amount over a three year period. We noted the department had not accounted for these receipts in a consistent manner. The department abated expenditures with moneys received from one sponsor, reduced an invoice payment for another sponsor, and recorded the remaining sponsorship income in the state Special Revenue Fund as donations. The department should account for program income consistently and appropriately.

Department personnel indicated that the processing of the sponsorship money was handled by various people in the department, and each person handled it differently.

Recommendation #13-3

We recommend DNRC:

A. Obtain written permission from the U.S. Forest Service prior to initiating projects not specifically identified in the grant agreement for the Urban Forestry program.

B. Properly account for federal program income.

Agency Response #13-3

A. Concur. Although we had verbal permission for the bus project, we will ensure that in future years we ask the Forest Service

for written approval for any projects not specifically listed in the grant agreement.

B. Concur. We will shift program income previously deposited into the state revenue account to the federal revenue account. We will also ensure that all future program revenue is correctly deposited into the federal revenue.

Stewardship Forest Resource Management Program

The department receives federal financial assistance from the U.S. Forest Service through the Stewardship Forest Resource Management program (CFDA #10.664). The department received stewardship funds amounting to $169,000 and $204,000 in fiscal years 1993-94 and 1994-95, respectively. The department subgranted $130,588 and $157,046 to Montana State University-Bozeman (MSU) in fiscal years 1993-94 and 1994-95, respectively. MSU is responsible for holding periodic workshops to teach private landowners how to manage and care for forests on their land.

13-4 Cash Management

The department, in its subgrant agreement, allows MSU to draw it's subgrant award in a lump sum near the start of each fiscal year. Federal regulations require that grantee and sub-grantee cash be drawn only in amounts necessary to meet immediate needs or to cover disbursements already made. We reviewed the MSU grant expenditures and found that expenses for the program are spread throughout the year. Since the department allows MSU to draw cash in amounts exceeding immediate cash needs, the department is not complying with federal regulations.

Recommendation #13-4

We recommend DNRC modify its subgrant agreement for the Forestry Stewardship program to comply with federal cash management regulations.

Agency Response #13-4

Concur. We will establish a process with Montana State University to ensure that our subgrant for the Forest Stewardship Program complies with federal cash management regulations.

13-5 Unsupported Adjustments

Federal regulations prohibit the use of stewardship program funds to teach forest management practices to timber industry personnel. In fiscal year 1993-94, MSU deposited workshop fees amounting to $30,834 in its stewardship program account to pay for the estimated costs incurred for a stewardship workshop attended by personnel representing the logging industry. All costs associated with the logging workshop were to be funded through participant fees. At a later date, MSU personnel decided to establish a separate account to track the financial activity for workshops held for representatives of the timber industry. After the new account was established, MSU employees moved $26,915 of logging workshop revenue and expenses from the stewardship account into the industry account. MSU recorded the adjustment to correct its accounting records and separately record the cost associated with timber industry personnel. Since MSU adjusted the account using estimates rather than actual revenue and expenditures, we could not determine whether the Forest Stewardship program (CFDA #10.664) account was properly adjusted.

MSU employees stated separate accounts had not been set up for the two programs when these expenses were incurred. The employees said they tried to back out the largest logging workshop expenditures, however, they did not have sufficient documentation to support their estimate. Federal regulations require state agencies to maintain documentation to support revenue and expenditures recorded for federal grant programs.

Recommendation #13-5

We recommend DNRC require MSU to properly support the adjustment for the logging workshop in the Forestry Stewardship program account as required by federal regulations.

Agency Response #13-5

Concur. Montana State University recognized the problem prior to the audit and separated the two accounts. We are satisfied that the action they took in removing the fees paid by the Montana Logging Association from the stewardship account and depositing them into a separate account was accurate and appropriate. Because there are now two separate accounts we do not expect this problem to reoccur in the future.